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September, 2021

© Indira Gandhi National Open University, 2021

ISBN:

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Further information on the Indira Gandhi National Open University courses may be obtained from the University's office at Maidan Garhi, New Delhi-110 068.

Printed and published on behalf of the Indira Gandhi National Open University, New Delhi, by the Registrar, MPDD, IGNOU.

Laser typeset by Tessa Media & Computers, C-206, A.F.E-II, Jamia Nagar, New Delhi-110025

BLOCK 1 BASIC CONCEPTS OF MARKETING

This Marketing Course is designed to help you learn basic concepts and practice of modern marketing in a practical way. This first block introduces you to the basic concepts of marketing. It explains what marketing is, how has it developed, the environmental forces which shape the organisation's marketing programme, marketing segmentation and consumer behaviour. This block consists of four units.

Unit 1 explains the meaning and importance of marketing, evolution of various marketing concepts, nature of marketing in the developing countries and the concept of marketing mix.

Unit 2 discusses the environmental forces which shape an organisation's marketing programme. In particular, it deals with the meaning and components of marketing environment, various government regulations affecting marketing in India and implication of some regulations for marketing decision-making,

Unit 3 describes the meaning of a market, classification of markets and their characteristics, meaning and importance of market segmentation, requirement and bases of segmentation and strategies for market targeting and positioning.

Unit 4 explains the meaning and importance of consumer behaviour, types of consumers, and factors influencing the consumer behaviour.

Block 2 Product

You have studied in Block 1 that marketing mix is a strategic combination of four elements viz. product mix, pricing mix, place mix, and promotion mix. They are also referred to as 'four P's' of marketing mix. This block essentially deals with the first element that is product mix. It consists of three units:

Unit 5 deals with the meaning and essential attributes of a product, types of products, product mix and product line related strategies, and the concept of product diversification.

Unit 6 discusses the process of developing a new product, the concept of product life cycle, stages in the product life cycle and the marketing strategies of each stage.

Unit 7 explains the meaning, importance, advantages and disadvantages of branding, and the guidelines for selecting a good brand name. It also deals with the meaning, importance, functions and legal dimensions of packaging.

Block 3 Pricing

As you know, product mix, pricing mix, place mix and promotion mix are the four Ps of marketing mix. You have already studied about product mix in the previous block. Now in this block we discuss pricing mix. Pricing product involves basically two tasks. Firstly, you have to decide the pricing

objectives and the basic price for the product. Then the second task is to decide on the strategies (such as discounts and allowances) to employ in modifying and applying the basic price. While deciding strategies on these two aspects, you have to take into consideration the provisions of various legislations which are intended for regulating prices in India. This block essentially covers all these three aspects. It consists of three units:

Unit 8 discusses the importance of price, objectives of pricing, factors affecting the pricing decisions and basic methods of pricing.

Unit 9 deals with the strategies relating to discounts and allowances, geographical pricing, new product pricing, fixed and flexible pricing and unit pricing.

Unit 10 explains the major provisions of various legislations regarding the regulation of prices of goods and services in India.

Block 4 Distribution

We are in the process of developing a marketing programme to reach the target markets and to achieve the goals established in strategic marketing planning. In this process, so far we discussed two components of marketing mix i.e., product and pricing. In this block, we shall discuss the third component of marketing mix i.e., distribution system which refers to the means for making the product available to the target market. In this block, we shall discuss the three major aspects of distribution: 1) strategies for selecting and operating channels of distribution. 2) role and functions of various intermediaries, and 3) physical distribution system for moving the products physically from the point of production to the point of consumption. All these three aspects are discussed in three separate units in this block.

Unit 11 discusses the meaning, role and functions of channels of distribution, factors influencing the choice of a distribution channel and strategies relating to the intensity of distribution.

Unit 12 deals with the meaning, role and classification of intermediaries. It also explains the specific functions and services rendered by wholesalers and retailers, and the recent trends in wholesaling and retailing.

Unit 13 discusses on various aspects relating to the physical distribution of a product. It describes the role, objectives and the tasks involved in the physical distribution of a product.

Block 5 Promotion

As you know there are four components in marketing mix viz., product, pricing, distribution and promotion. We have already discussed the strategies regarding the product, pricing and distribution. Now, we shall study the strategies regarding the promotional programme. This block discusses the meaning and importance of promotion, communication process, the concept

of promotion mix and various components of promotion. This block consists of three units.

Unit 14 explains the meaning and importance of promotion, communication process, components of promotion mix and various factors affecting the promotion mix.

Unit 15 is concerned with personal selling and sales promotion. It explains the nature and importance, various theories and major steps in personal selling and qualities of a good salesperson. It also discusses the importance and major tools of sales promotion.

Unit 16 deals with advertising and publicity. It explains the meaning, objectives, role, parties involved and media decisions of advertising. It also discusses the meaning of publicity, how does publicity differ from advertising and various means of publicity.

Block 6 Services Marketing and Emerging Issues

You have studied in detail regarding the important decisions related to Product, Price, Physical Distribution and Promotion (marketing mix) in the previous blocks. This block consists of four units, which introduce you to the concept of services marketing, rural marketing and emerging issues in marketing. In this block, you will learn how marketing strategies for services are different from those of the products and how they are developed, the importance and challenges of rural marketing in Indian context and various emerging issues in marketing that should be considered while making decisions as they are playing an important role in the marketing of the business offerings.

Unit 17 explains the meaning and characteristics of services, how are they different from products, the interdependence between product and services, classification of services, marketing strategies for service firms and the challenges associated with marketing of services.

Unit 18 discusses the concept of rural markets, rural consumer and rural marketing. It explains the growing importance and challenges of rural markets, the need of separate marketing mix for rural marketing and the recent trends of rural marketing in India.

Unit 19 explains the concept of emerging marketing issues like relationship marketing, consumerism, electronic retailing, internet marketing, social marketing and green marketing with their relative advantages and limitations.

Unit 20 explains the concept, advantages and limitations of digital marketing, face to face marketing, experiential marketing, internal marketing, location based marketing, augmented and virtual reality marketing and direct marketing.

Block

1

BASIC CONCEPTS OF MARKETING

UNIT 1

Nature and Scope of Marketing

UNIT 2

Marketing Environment

UNIT 3

Markets and Market Segmentation

UNIT 4

Consumer Behaviour

UNIT 1 NATURE AND SCOPE OF MARKETING

Structure

- 1.0 Objectives
- 1.1 Introduction
- 1.2 The Meaning of Marketing
- 1.3 Marketing Concepts
 - 1.3.1 Production Concept
 - 1.3.2 Product Concept
 - 1.3.3 Selling Concept
 - 1.3.4 Marketing Concept
 - 1.3.5 Societal Concept
- 1.4 Evolution of Marketing
- 1.5 Difference between Selling and Marketing
- 1.6 Importance of Marketing
- 1.7 Marketing in a Developing Economy
- 1.8 Concept of Marketing Mix
- 1.9 Let Us Sum Up
- 1.10 Key Words
- 1.11 Answers to Check Your Progress
- 1.12 Terminal Questions

1.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning of marketing and various marketing concepts;
- state the importance of marketing to the business, the consumer and the society;
- describe the nature of marketing in a developing economy; and
- discuss the concept of marketing mix.

1.1 INTRODUCTION

Everyone needs to understand marketing be it customers or marketers. A proper understanding of the marketing concepts and principles enables customers as well as marketers to make informed choices. Marketing presents two sides of stories; story from the customers' side and story from the

marketers' side. Let us listen and analyse both the stories and make informed choices.

In this introductory unit, you will study the meaning of marketing and various marketing concepts, evolution of marketing, importance of marketing and the nature of marketing in a developing economy like India. You will also understand the concept of marketing mix and the components of marketing mix.

1.2 THE MEANING OF MARKETING

When asked about the meaning of marketing, majority of people say that marketing is selling, advertising and /or public relations. It is important to understand that marketing is much more than selling or advertising, although these do form part of the marketing functions.

According to the American Marketing Association *"marketing is an organizational function and a set of process for creating, communicating and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders."* This definition is undoubtedly an improvement on the description of marketing as selling. According to this definition, marketing also encompasses other activities along with selling.

If you are an entrepreneur who wants to start a new business, you do not have a product. In fact you will have to decide what product you should manufacture and sell. How do you decide this? This you can do only when you identify the needs which require satisfaction among human beings. Once you identify the need of a group of human beings, you can determine the product which can satisfy that need. This is a part of the modern philosophy of marketing or the marketing concept.

Philip Kotler, a well known author in the area of marketing, defines marketing as *"a human activity directed at satisfying needs and want through exchange processes."* Thus, the most fundamental concept which must be realised as being the basis of all marketing activities is the existence of human needs. A marketing man may devise a product or service aimed at satisfying a certain need, and thus provides satisfaction to the user. People may have unlimited wants but the ability to buy may be restricted on account of their economic background. They will, therefore, select from among those products which give more satisfaction or are needed more. Thus, when they are backed by ability to buy, the wants are converted into demand for your product. Therefore, when people decide to satisfy their needs and wants, in terms of marketing activities, exchange takes place. This explains in detail the definition given by Kotler.

Based on the above discussion we can develop a process-oriented definition of marketing, as **"the process of ascertaining consumer needs, converting**

them into products or services, and moving the product or service to the final consumer or user to satisfy certain needs and wants of specific consumer segment or segments with emphasis on profitability, ensuring the optimum use of the resources available to the organisation."

Marketing is a continuous process and it does not end unless the business itself comes to an end.(Figure 1.1)

In today's era, the emphasis of marketers is not limited to customer satisfaction. Marketers now emphasise on attaining customer delight, identifying the most valuable customer, earn customer loyalty, maintain and manage relationship with the customers. This is known as customer relationship management.

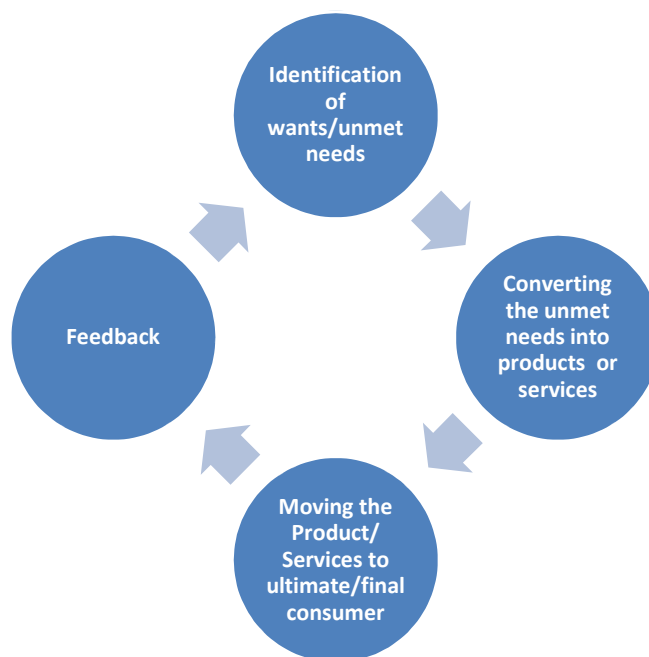


Figure 1.1:Marketing as a Continuous Process

In practice, often, the business functions such as production, finance and marketing are performed by separate departments with their own way of thinking. Production is often considered the more important function as compared to marketing. This practice is, gradually losing ground and it is being recognised that unless you can sell a product, you should not manufacture it. Production-orientation evolved because often products were designed and developed by inventors who hoped that they would sell. However, if these products fail to satisfy some needs, they would never sell in the market place. Therefore, consumer oriented thinking becomes necessary for any business to survive and grow.

1.3 MARKETING CONCEPTS

There are five different marketing concepts under which business enterprises conduct their marketing activity:

- 1) Production concept
- 2) Product concept
- 3) Selling concept
- 4) Marketing concept
- 5) Societal concept

1.3.1 Production Concept

This is probably the oldest concept. Some businessmen believe that the consumers are interested only in low priced, easily and extensively available goods. The finer points of the product are not very important to them. So the producers believe they must concentrate only in efficient (economical) and extensive (large scale) production. A company which believes in this approach concentrates on achieving high production efficiency and wide distribution coverage. Organisations may adopt this concept in two types of situations:

- i) **When the demand for the product is higher than the supply**, you can sell more if you increase production. Here the main concern of the management is to find ways to increase production to fill the demand and supply gap.
- ii) **When the cost of the product is high** and increase in production is going to bring down the cost due to **economies of scale**.

The organisations which adopt this concept are typically production oriented concerns. Production and engineering departments play an important role in this situation. Such organisations have only sales departments to sell the product at a price set by production and finance departments.

1.3.2 Product Concept

As against the production concept, some organisations believe in product concept. The product concept implies that **consumers favour those products that offer the most quality, performance and features**. They also believe that consumers appreciate quality features and will be willing to pay **'higher price for the 'extra' quality** in the product or service made available. Hence, those companies which believe in this concept concentrate on product and its improvement. While improving the product they rarely take into consideration the consumers' satisfaction and his multifarious needs. Even when new products are planned, the producer is concerned more with the product and less with its uses or the consumer needs. For example, a biscuit manufacturer produced a new brand of biscuits with good ingredients, colour, packaging, etc., without taking into account consumer tastes and preferences. This may fail in the market if the biscuit does not taste good to the ultimate consumer.

1.3.3 Selling Concept

Sometimes the main problem of the enterprise is not more production, but to sell the output. Similarly, a better product may not assure success in the market. Hence selling assumes greater importance. So some producers believe that aggressive persuasion and selling is the crux of their business success, and without such aggressive methods they cannot sell and survive. Therefore, attention is paid to find ways and means to sell. They also believe that **customer/consumers** left to themselves, will not buy enough of organisation's products and services, and hence considerable promotional effort is justified. Thus, **the selling concept assumes that consumers on their own will not buy enough of organisation's products, unless the organisation undertakes aggressive sales and promotional efforts.** Many insurance agents, sales persons of certain electrical gadgets, health drinks, soft drinks, and fund raisers for social or religious causes come under this category.

Many a times customers and consumers are treated as same. However, there is a difference. Anyone who buys a commodity or services is customer whether she is buying for own consumption or other or for commercial purpose whereas a consumer may not necessarily buy the offering but she consumes it

Sale is the index of success of marketing as well as the production efforts. The marketers who believe in sales concept often forget that the consumers buy goods to fulfil certain needs. After the sale, what happens or how does the consumer feel is not their concern. They may not expect the customer to come again to buy the product. They may go to new target consumers rather than building up a network of satisfied customers. Some firms facing with excess production also adopt selling concept. There are fair as well as unfair persuasive means adopted in this process. But the purpose behind all such action is selling more. Sales executives or sales department assumes greater importance in sales concept compared with production concept and product concept.

1.3.4 Marketing Concept

In an evolutionary process, many organisers have come to change their focus and to see their marketing tasks in a broader perspective. Marketing concept is considered a business philosophy wider in its implications. Under the marketing concept, the organisation considers the needs and wants of consumers as the guiding spirit and the delivery of such goods and services which can satisfy the consumer needs more efficiently and effectively than the competitors. It is also said that the marketing concept is consumer orientation with the objective of achieving long run profits. It is a modern marketing philosophy for dynamic business growth. In other words, **under this concept the task of marketing begins with finding what the consumer wants, and produce a product which will meet that want and**

provide maximum satisfaction. Implicitly, the consumer is the boss or king who dictates. The focus which moved from the product to selling, now rests with the consumer.

When organisations practice the marketing concept, all their activities (manufacturing, finance, research and development, quality control, distribution, selling, etc.) are directed to satisfy the consumer which becomes the core of corporate culture in such organisation. Companies produce what consumers want and, thus, satisfy consumers and make profits.

Those companies which have attained a certain maturity and which could see beyond the immediate future adopt this concept. Some companies may not adopt this concept because they feel that this may result in the decline of sales or profits in the short run and the long run profits in any case are unpredictable or uncertain. The companies which want to make 'quick-bucks' also do not adopt this concept. Even the departments within the organisation may not fully cooperate since they are not 'convinced' about the advantages of following the marketing concept. In spite of these hurdles, it is now a world-wide experience. Companies which are successful, enjoy goodwill and grow in the long run are companies which have adopted the marketing concept as their business philosophy. These companies realised that a satisfied customer is the best advertiser for their product. Their profits are generated from the satisfaction of the customer and not from the product or their selling efforts. In an economy like India with shortages in many goods as well as lack of resistance from the consumers, the firms which practice the first three concepts may also survive.

1.3.5 Societal Concept

With the growing awareness of the social relevance of business, there is an attempt to make marketing also relevant to the society. In a sense, marketing is not a business activity alone but must take into account the social needs. Excessive exploitation of resources, environmental deterioration and the customer movements in particular have necessitated the recognition of the relevance of marketing to the society. Marketing then must be a socially responsible or accountable activity. **The societal concept holds that the business organisation must take into account the needs and wants of the consumers and deliver the goods and services efficiently so as to enhance consumer's satisfaction as well as the society's well being.** The societal concept is an extension of the marketing concept to cover the society in addition to the consumers.

In effect, **a company which adopts the societal concept has to balance the company profit, consumer satisfaction and society's interests.** The problem is almost the same as that of social responsibility of business. What is good for the society is a question to be decided. A voluntary acceptance of this concept is desirable for the long run survival of private business. An effective implementation of the societal concept will certainly enhance the

goodwill of the business house. The business enterprises which believe in this concept will produce and market those goods and services which are beneficial to the society, those that do not pollute the environment, and give full value for the money spent.

Check Your Progress A

- 1) Distinguish between production concept and product concept.
- 2) Distinguish between selling concept and marketing concept.
- 3) Distinguish between marketing concept and societal concept.
- 4) Match the organisational objectives given in Column 1 with the marketing concepts in Column 2.

Organisational Objectives	Marketing Concept
i) Effective distribution	a) Product concept
ii) Large scale selling and promotion effort	b) Societal concept
iii) Produce what consumers need	c) Selling concept
iv) Product improvement	d) Production concept
v) Improve society's well being	e) Marketing concept

- 5) State whether the following statements are **True** or **False**.
 - i) In an organisation which adopts the production concept, marketing department assumes greater importance.
 - ii) Producing a cheaper product is the focus of product concept of marketing.
 - iii) Selling concept of marketing assumes that left to themselves consumers will not buy enough of organisation's products
 - iv) "Make what you can sell instead of trying to sell what you can make", is the approach in marketing concept.
 - v) A company which adopts the societal concept has to balance the company profit, consumer satisfaction and society's interests.

1.4 EVOLUTION OF MARKETING

Marketing has gradually evolved out of the barter system. The Industrial Revolution, growing population, improvements in communications, transport facilities and information technology revolution have contributed to the growth of marketing as an important economic activity. In the initial stages of development, a village artisans or craftsmen made goods to order and tried to meet the neighbourhood demand. After the Industrial Revolution, large scale production became possible and large scale industries came into existence. In

the initial stages of Industrial Revolution, producers were able to sell whatever they have produced. So, they concentrated on higher production. At that stage most of the enterprises adopted the production concept. Later when the competition started building-up, producers faced difficulties to sell whatever they produced and the need to improve the product arose. This led to the emergence of product concept and selling concept. With the increase in competition, producers realised the advantage of producing what consumers need instead of selling whatever is produced. This led to the consumer orientation in marketing and the emergence of marketing concept and societal concept.

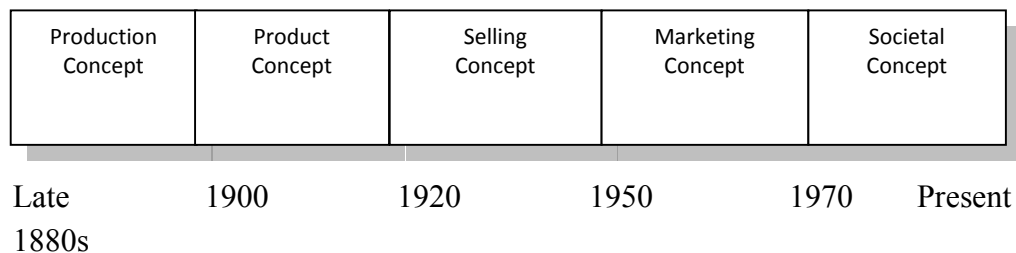


Figure 1.2 : Evolution of Marketing Concepts - Approximate Time Period

Figure 1.2 presents the approximate time spans covered by each of the five concepts in the USA. Since changes occur gradually over a continuum, the periods overlap one another. So, the figure indicates only the times during which a particular concept has been prevalent. Other developed countries also have gone through the similar periods, usual?

In the developed countries where the markets are developed, most of the producer adopt the marketing concept. In the developing countries markets are heterogeneous and you can see the co-existence of all the five concepts. Thus, the concept of marketing has grown along with the process of economic development.

The growth of civilisation, the standard of living, the changing life styles and technological growth have created new wants. These can be satisfied only with a wide variety of new goods and services apart from changes and improvements in the existing goods and services. This is however the general trend, and there are several exceptions. Markets for all products and services have to reach a certain maturity to experience this evolutionary trend. It may not be so in the case of each and every product or market. The rural market in India, for example, is fairly different from the urban market. Even among a set of consumer goods, for example, cosmetics which serve the middle/upper income groups are much more consumer oriented than the market for undergarments for men. Besides, there is a seller's market in some goods and services and a buyer's market in some others.

Another feature in the evolutionary process of marketing is the growing role of service marketing. The demand for service contracts to maintain the gadgets in use have become more easily marketable and a reliable service

commands a premium in the market. When one computer manufacturer enters the market, may be another 20 to 30 service organisations come up to offer their services for an uninterrupted performance of the computer or to train people in computer software and operation.

Another feature in the growth of marketing is the globalisation of markets. Many producers aim at selling in more than one country. The product and promotion strategies are planned that way. It does not require a large scale business to enter the export market, even the small scale businesses are entering the export market quite significantly.

1.5 DIFFERENCE BETWEEN SELLING AND MARKETING

Many people use the terms marketing and selling as synonyms. In fact, these two terms have different meanings in marketing management. An understanding of the differences between them is necessary for you to be a successful marketing manager.

Selling is an action which converts the product into cash but marketing is the whole process of meeting and satisfying the needs of the consumer. Marketing consists of all those activities that are associated with product planning, pricing, promoting and distributing the product or service. **Selling focuses on the needs of the seller whereas marketing concentrates on the needs of the buyer.**

Selling is the modern version of the exchange under barter system. When the focus is on selling, the business man thinks that after production has been completed the task of the sales force starts. It is also the task of the sales department to sell whatever the production department has manufactured. Aggressive sales methods are justified to meet this goal and customer's actual needs and satisfaction are taken for granted.

But marketing is a wider and all pervasive activity to a business firm. The task commences with identifying consumer needs and does not end till feedback on consumer satisfaction from the consumption of the product is received. It is a long chain of activity which comprises production, packaging, promotion, pricing, distribution and then the selling. **‘Consumer needs’ become the guiding force behind all these activities.** Profits are not ignored but they are built up on a long run basis. Distinction between selling and marketing are summarised in Table 1.1.

Table 1.1 Distinction between Selling and Marketing

Selling	Marketing
1. Emphasis is on the product.	Emphasis is on customers wants.
2. Company first makes the product and then figures out how to sell it.	Company first determines customers wants and then figures out how to make and deliver a product to satisfy these wants.
3. Management is sales volume oriented.	Management is profit oriented.
4. Planning is short-run-oriented, in terms of today's products and markets.	Planning is long-run-oriented, in terms of new products, tomorrow's markets and future growth.
5. Stresses on needs of seller.	Stresses on wants of buyers.
6. Stresses on sale.	Stresses on delighted customer.

Source : Stanton W.J., and Charles Futrell. 1987. Fundamentals of Marketing, McGraw Hill, P. 11-12.

1.6 IMPORTANCE OF MARKETING

Marketing is considered to be the most important activity of the present day business. Without it, business will be meaningless. Quite often the success of a business is considered synonymous with the success of its marketing. Apart from becoming so crucial to a business, it is also helpful to the consumer and the development of the economy as well as the society. Over a period of time, businesses have realised various dimensions and significance of this function and a more comprehensive view is being adopted. Specialised branches of marketing like the marketing of consumer goods and services, industrial goods and services, have developed with their own unique features.

Marketing is a concept applicable not only to goods but also to services such as health service, investment counselling, bank deposits and loans, etc. Marketing is important to the business, consumer and the society. For the business house marketing brings in revenue, for the consumer it provides the goods and services of utility, for the society it enables a redistribution of income and generation of employment, and improving the standard of living of people. Major advantages of marketing are briefly discussed below:

- 1) Marketing is important to the business organisation since it is the activity that sells the product and **brings revenue to the company**, and it is also the key to its success. Research and development and production become meaningless if the product is not marketed successfully. Scanning the environment, finding marketing opportunities, formulating product

policies, evolving distribution and pricing strategies are some of the problem areas which pose challenges to the success of a business. Marketing takes care of all these challenges.

- 2) Marketing enables the consumers to exercise choice and to improve their levels of consumption. In a sense, marketing is defined as the delivery of a standard of living. The easy availability of goods and services of good quality at competitive prices is made possible only by an efficient marketing system. In such a system the consumer is the king.
- 3) Marketing creates time, place and possession utilities to products and services. Products are useful only when they are available at the required time and place as well as to the person who needs them. Marketing creates these utilities.
- 4) Marketing contributes to the economic development of the country. It symbolises the economic development. This is because on the one hand marketing activities generate employment and income, and on the other hand the development of a country is reflected in the variety and volume of goods available and consumed by the people of that country. The per capita availability of essential consumer goods is an indicator of the level of poverty or affluence in a country.
- 5) Marketing offers career opportunities to a large number of people. Marketing related occupations account for a significant portion of the employment generated in a country.

1.7 MARKETING IN A DEVELOPING ECONOMY

Efforts, scope and functions of marketing depends upon economic development, technological achievements and political, social and cultural factors. For example, scope of marketing for a population which is illiterate is different than that of a literate population.

Marketing in a developed economy is somewhat different from a developing economy like India. All the advantages of a matured marketing system as found in a developed economy, may not be realised in a developing economy. Some characteristics of marketing in a developing economy are as follows:

- 1) Most of the markets remain seller's markets. The seller is in a dominating position and can influence the pattern of consumption, prices and quality of goods and services to his advantage. Many of the manufacturers believe in the selling concept and bother less about consumer satisfaction.
- 2) The variety of goods and services available are limited and even their quality may require improvement. Lack of effective competition enables

the manufacturers to sell whatever they produce. The consumers have to accept and buy whatever is available in the market.

- 3) In a developing economy, due to lower per capita income, people spend most of their income on necessities and little money is available for discretionary spending. People may not be able to buy many goods and services within the limited income. As income determine consumption patterns, the scope for marketing is also determined by income.
- 4) The consumers knowledge and awareness about their rights is also limited because they do not have more exposure to marketing activities. It is difficult to know about higher quality, better service and wider choice unless one has an exposure in these terms. The consumers of the developing economies, therefore, appear to be content with whatever is available in their country.
- 5) The supporting services such as departmental stores, credit facilities, packing and delivery systems, after sales services, product guarantee, money back guarantee etc., are also less in developing countries.

All the developing countries are in a process of gradual evolution and in the normal course of events must grow into developed systems. However, with the rapidly changing environment, the whole thing is getting tricky.

1.8 CONCEPT OF MARKETING MIX

Marketing requires several activities to be done. To begin with, a company may choose to enter one or more segments of a market-since it may not be possible to cover the entire market. The manufacturer of a bathing soap, for example, may aim at the working class in the middle or lower income groups as his target consumers. Once the target market is decided, the product is positioned in that market by providing the appropriate product qualities, price, distribution and advertising efforts. These and other relevant marketing functions are to be combined or mixed in an effective proportion so as to achieve the marketing goal. In order to appreciate this process, it is easier to divide the marketing activities into four basic elements which are together referred to as the marketing mix. These four basic elements are: 1) product, 2) price, 3) promotion, and 4) physical distribution. As all these four start with the letter 'P', they are referred to as the four Ps of the marketing mix or the four Ps in marketing. However, in the marketing of services these 4Ps are extended to 7Ps. 3Ps more get added. In the unit 17 these are elaborated.

Thus, marketing mix may be defined as the set of controllable marketing variables/activities that the firm blends to produce the response it wants in the target markets. A marketing expert named E. Jerome McCarthy created the term Marketing 4Ps in 1960.

Let us study the four Ps in details.

The word **product** stands for the goods or services offered by the organisation. Once the needs are identified, it is necessary to plan the product and after that keep on analysing whether the product still satisfies the needs which were originally planned for, and if not, to determine the necessary changes. You will learn this in greater detail in Block 2 of this course when we talk about how are new products introduced, how have they to be modified in due course to continue to be successful in sales and why be marginal or non-profitable products should removed, unless they are contributing in some way to the overall benefit of the organisation.

Price is the money that the consumer has to pay. Price must be considered as worth the value of the product to become an effective marketing tool. The product has to be reasonably priced. The manufacturer has to take into account cost factors, profit margin, the possibility of sales at different price levels and the concept of the right price. You will study pricing in detail in Block 3 of this course.

Promotion is the aspect of selling and advertising or communicating the benefits of the product or service to the target customers or the market segment in order to persuade them to purchase such products or services. It includes selling through advertising as well as the sales force. Besides, a certain amount of promotion is also done through special seasonal discounts, competitions, special price reductions, etc. You will study about promotion in detail in Block 5 of this course.

Physical distribution refers to the aspect of the channels of distribution through which the product has to move before it reaches the consumer. It also includes the logistic aspects of distribution such as warehousing, transportation, etc., needed for geographical distribution of products. It is also concerned with the selection of distribution channels. The organisation must decide whether it should sell through wholesalers and then to retailers, or whether directly to the consumers. There are many ways in which a product can be moved from the producer to the consumer. The optimum method has to be determined in terms of both consumer satisfaction and profitability to the organisation, or optimum use of the organisation's resources. You will study about physical distribution in detail in Block 4 of this course.

The manufacturer must design the most effective combination of these four basic factors as well as the expenditure he would like to incur on them. The variables that are relevant in the marketing mix vary from company to company. These variables are not independent in their effect on the marketing effort. One variable may influence the other. Apart from the expenditure involved, these decisions are influenced by the company's market positioning decision. Look at Figure 1.3 carefully. It summarises all the components of marketing mix.

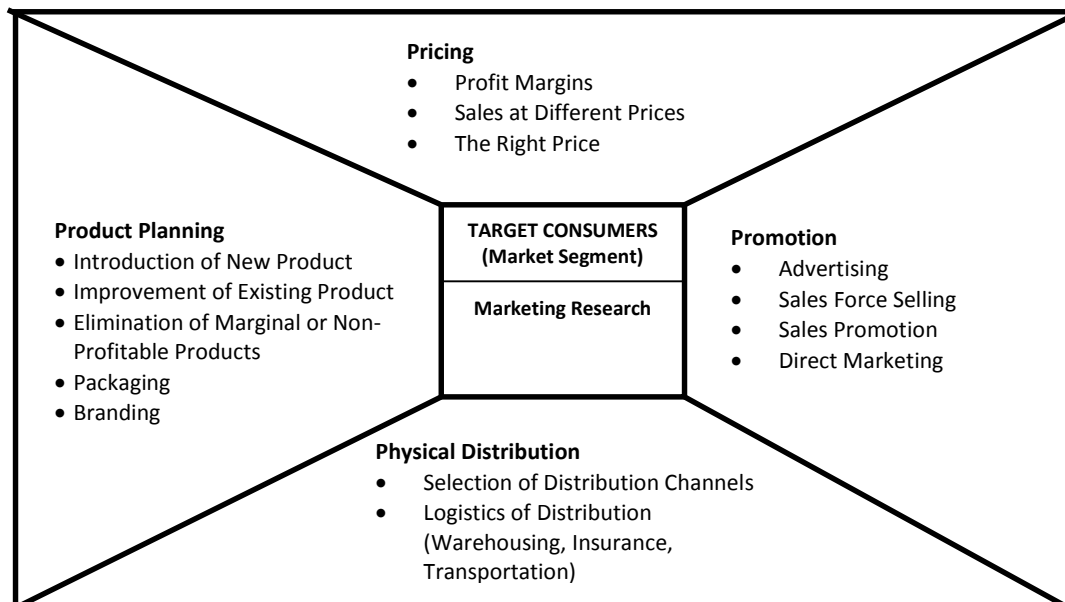


Figure 1.3 Marketing Mix

Check Your Progress B

1) What are the four Ps of marketing?

As discussed above, when it comes to services marketing these 4P's are further extended to 7P's i.e.,

- Product,
- Prices,
- Promotion,
- Physical Distribution/Places,
- People,
- Process, and
- Physical Evidence,

The extended 3Ps are People, Process and Physical Evidence.

People: People involves Employer, Management, Culture and Consumer Service.

Process: Process refers to How are Services created and Created and Consumed

Physical Evidence: Physical environment refers to Run down, comfort, facilities etc.

It is very important for a marketer to find out if there is enough demand for his product in his target market(s) and (people) to ensure that the organisation has efficient human resources (employees) who can deliver the satisfaction to the ultimate/final consumer.

We need to have a well-designed process to render services to the consumer. In service industries it is imperative to ensure that the services are delivered to the consumers, as desired by, therefore there should be physical evidence that the services were delivered as they had to be.

Besides, there is a theory of 4C's developed in 1990s. The 4Cs marketing model was developed by Robert F. Lauterborn in 1990. He added: Cost, Consumers, Wants & needs, Communication and Convenience to the marketing mix model.

4Ps and Corresponding 4Cs

Product	—————→	Customer wants and needs
Price	—————→	Cost
Place	—————→	Convenience
Promotion	—————→	Communication

Check Your Progress B

- 1) What are the four Ps of marketing?
- 2) State the distinction between selling and marketing.
- 3) State whether the following statements are **True** or **False**.
 - i) From the society's point of view marketing is a waste.
 - ii) An underdeveloped economy is primarily a buyer's market.
 - iii) Marketing creates time and place utilities to products and services.
 - iv) Selling primarily refers to exchange function.
 - v) Marketing starts with the product.
 - vi) Marketing in developing countries is different from the marketing in developed countries.
 - vii) In developing countries markets are mostly sellers' markets.

1.9 LET US SUM UP

The term marketing has been defined in different ways. This is because each author defines it with a particular approach or purpose. According to Philip Kotler, “marketing is human activity directed at satisfying needs and wants through exchange process”. It is a process of ascertaining consumer needs, converting them into product or services, and moving the product or service to the final consumer or user to satisfy certain needs and wants with emphasis on profitability and ensuring the optimum use of the resources available to the organisation.

After the Industrial Revolution, marketing philosophy has undergone so many changes. It has passed through four stages and a fifth stage is emerging. During these five stages of development, five marketing concepts emerged. They are: 1) production concept, 2) product concept, 3) selling concept, 4) marketing concept, and 5) societal concept. However, even in the present day world many companies are still in the earlier stages.

Many people think that the terms selling and marketing are synonymous. In fact, selling is different from marketing. Selling is the action which converts the product into cash whereas marketing is the whole process of identifying, meeting and satisfying the needs of the consumers.

Marketing is the most important activity of any business. Quite often the success of the business is considered synonymous with the success of its marketing efforts. Apart from becoming crucial to the business, it is also helpful to the consumer and the development of the economy as well as the society. Marketing in a developing economy is somewhat different from developed economy. All the advantages of a matured marketing system as found in a developed economy may not be realised in a developing economy.

Marketing activities may be divided into four basic elements which are together referred to as the marketing mix. These four basic elements are: 1) Product 2) Price, 3) Promotion, and 4) Physical Distribution. As all these elements start with the letter P, they are referred to as the 'four Ps' of the marketing mix or the 'four Ps in marketing'.

1.10 KEY WORDS

Marketing: The process of ascertaining consumer needs, converting them into products or services, and moving the product or service to the final consumer or user to satisfy certain needs and wants with emphasis on profitability and ensuring optimum use of the resources available to the organisation.

Marketing Concept: A marketing philosophy which holds that achieving organisational goals depends on determining needs and wants of target markets and delivering the desired satisfaction more effectively and efficiently than competitors.

Marketing Mix: The set of four Ps-product, price, promotion and physical distribution--that the firm blends to produce the response it wants in the target group.

Product Concept: A marketing philosophy which holds that consumers will favour the products that offer the most quality, performance and features, and therefore the organisation should devote its energy to making continuous product improvement.

Production Concept: A marketing philosophy which holds that consumer will favour products that are available and highly affordable, and therefore management should focus on improving production and distribution efficiency.

Selling Concept: A marketing philosophy which holds that consumer will not buy enough of the organisation's products unless the organisation undertakes a large selling and production effort.

Societal Concept: A marketing philosophy which holds that the organisation must take into account the needs and wants of the consumers and deliver the goods and services efficiently so as to enhance consumer's satisfaction as well as the societal well being.

1.11 ANSWERS TO CHECK YOUR PROGRESS

- | | | | | |
|----------------|-----------|-----------|----------|----------|
| A) 4. i) d | ii) c | iii) e | iv) a | v) b |
| 5. i) False | ii) False | iii) True | iv) True | v) True |
| B) 3. i) False | ii) False | iii) True | iv) True | v) False |
| vi) True | vii) True | | | |

1.12 TERMINAL QUESTIONS

- 1) Define marketing and explain its implications. Explain how is marketing different from selling.
- 2) What are the marketing concepts? Explain the process of evolution of these concepts.
- 3) Describe the profile of a company which has adopted the marketing concept.
- 4) What is the consumer's place in modern marketing?
- 5) Explain the importance and features of marketing in a developing economy.
- 6) What is marketing mix? Explain the components of marketing mix

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

UNIT 2 MARKETING ENVIRONMENT

Structure

- 2.0 Objectives
- 2.1 Introduction
- 2.2 What is Marketing Environment?
 - 2.2.1 Micro Environment
 - 2.2.2 Macro Environment
- 2.3 Relevance of Environment in Marketing
- 2.4 Marketing Environment in India
- 2.5 Government Regulations Affecting Marketing
- 2.6 Let Us Sum Up
- 2.7 Key Words
- 2.8 Answers to Check Your Progress
- 2.9 Terminal Questions

2.0 OBJECTIVES

After studying this unit, you should be able to:

- state the meaning of marketing environment, both in terms of micro environment and macro environment;
- explain the marketing environment in India;
- discuss how do the environment affect marketing decisions; and
- describe the government regulations in India which have implications for marketing decisions.

2.1 INTRODUCTION

In the previous unit, you have learnt the various activities that comes under marketing. Marketing functions are to be carried out in a given environment. Even the marketing opportunity has to be scanned and identified by carefully observing the environment. The marketing mix is also decided in the context of a given marketing environment. Though marketing managers cannot control the forces in a marketing environment, they must take them into account when making marketing decisions. While formulating the marketing strategies, the marketers must closely observe the environment in which they are functioning. In this unit, you will study the factors that constitute the marketing environment, and the marketing environment in India. You will also learn how various Acts and Statutes influence the marketing decisions in India.

2.2 WHAT IS MARKETING ENVIRONMENT?

Marketing system of every business organisation is influenced by a large number of controllable and uncontrollable factors that surround the company. So the marketing system of a company must have to operate within the framework of the environmental forces. According to Philip Kotler, **a company's marketing environment consists of the actors and forces outside of marketing that affect marketing management's ability to develop and maintain successful transactions with its target consumers.** For example, the relevant environment to a car manufactures and buyers, tyre manufacturer may be the other car manufacturerscompetitors and the tyre manufacturing technology, the tax structure, imports and export regulations, the distributors, dealers, competitors, etc. In addition to these, the company may have to consider its own capabilities in terms of its productiontechnology, finance, sales force, etc. The environment becomes important due to the fact that it is changing and there is uncertainty. Some of these environmental factors are uncontrollable. There is both a threat and opportunity in these changes.

These environmental factors may be grouped as **micro environment** and **macro environment**. These factors may be classified in terms of internal and external environmental factors also. **Micro environment refers to the company's immediate environment**, that is, those environmental factors that are in its proximity. They include the company's own capabilities to produce and serve the consumer needs, the dealers and distributors, the competitors, and the customers. thuscan be termed as internal environment which includes the factors that are within the organisation. These factors affect the overall business operations such as human resource, inventory, company's plans, and strategies, finance etc. These are also the groups of people who affect the company's prospects directly. The **macro environment consists of larger societal forces, which may be placed in an outer circle.** These includes demographic, economic, natural, technological, political and cultural forces. The influence of these factors are indirect and often take time to reach the company. Look at Figure 2.1 carefully which presents these forces.

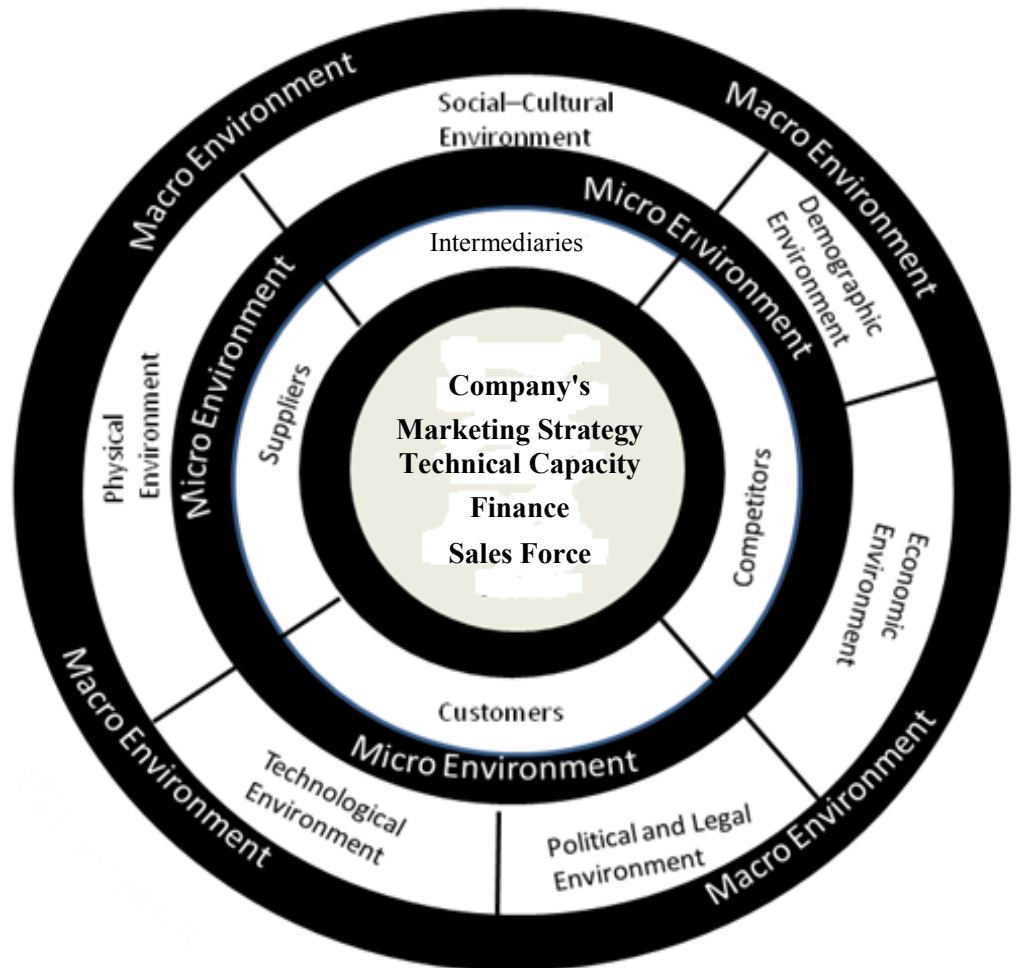


Figure 2.1: Marketing Environment

The forces in the outer circle may be taken to constitute the macro environment and those in the inner circle as the micro environment of a company.

2.2.1 Micro Environment

Micro environmental factors which influence the marketing decisions of the company are: 1) organisation's internal environment, 2) suppliers, 3) marketing intermediaries, 4) competitors, and 5) consumers. Let us now study about each of these factors briefly. You can see marketing environment at a glance in figure 2.1A.

Organisation's Internal Environment: Organisations financial, production and human resource capabilities influence its marketing decisions to a large extent. For instance, while deciding about the sales targets, it is necessary to see whether the existing production facilities are enough to produce the additional quantities or not. If the existing facilities are not enough and expansion to plant and machinery is required, it is necessary to think about financial capabilities.

You may have a responsive research and development department to develop a new product. So also the production department may have its own facilities

for producing the new product. It is also necessary to consider how non-marketing departments in the organisation cooperate with the marketing department. The top management may not agree with the views of the marketing department on the marketing strategies or their implementation. Besides, the marketing department must work in close cooperation with the other departments, especially control and production departments. Sometimes it is the sales force that must bear the major task in the strategy.

Suppliers: For production of goods or services, you require a variety of inputs. **The individuals or firms who supply such inputs are called suppliers.** Success of the marketing organisation depends upon the smooth and continuous supply of inputs in required quantities on reasonable terms. Hence suppliers assume importance. The timely supply of specified quality and quantity makes the producer to keep up the delivery schedule and the quality of the final product. The dependence on the supplier is naturally more when the number of suppliers is more. During periods of shortages, some suppliers may not supply materials on favourable terms. Each supplier may negotiate his own terms and conditions, depending upon the competitive position of his firm. Some suppliers, for example, expect payment in advance, and goods are supplied on the basis of a waiting list, whereas others may be ready to supply on credit basis.

Intermediaries: Normally, it is not possible for all the producers to sell their goods or services directly to the consumers. Producers use the services of a number of intermediaries to move their products to the consumers. The dealers and distributors, in other words the marketing intermediaries, may or may not be willing to extend their cooperation. These persons normally prefer well established brands. Newcomers may find it extremely difficult to find a willing dealer to stock his goods. From newcomers they may demand favourable terms by way of discount, credit, etc., and the producer may find it difficult to satisfy them. There are also other intermediaries like transport organisations, warehousing agencies, etc., who assist in physical distribution. Their cost of service, accessibility, safe and fast delivery, etc. often influence the marketing activities.

Competitors: Competitors pose competition. Competitors, strategies also affect the marketing decisions. Apart from competition on the price factor, there are other forms of competition like product differentiation. There are also competitors who use brand name, dealer network, or close substitute products as the focal point. Their advertising may present several real or false attributes of their product. If one advertises that his product has an imported technology, the other may say that he is already exporting his product. Competitor's strategies sometimes may change an opportunity in the environment into a challenge.

Customers: There are many types of customers. A firm may be selling directly to the ultimate users, (consumers) the resellers, the industries, the Government or international buyers. It may be selling to any one or all of these customers. Each type of consumer market has certain unique characteristics and the marketer should be fully acquainted with the art of persuading and selling to these consumers. The environment presented by customer profile will have a direct influence on these marketing activities. (You will study in detail about consumer behaviour in Unit 4.)

The population also contains the potential consumers of the company's product. It may not be easier to identify the persons who are likely to become the customers of a company. The goodwill built-up by a company sometimes influences the consumers to become the loyal customers of a company. Companies generally try to build good public relations and create a favourable attitude among the people or groups of people. Government and consumer action groups are special categories with whom a negative attitude is to be avoided. Thus, the public also constitute an element in the environment.

2.2.2 Macro Environment

The macro environmental factors that exert influence on an organisation's marketing system are: 1) physical environment, 2) technological environment, 3) political and legal environment, 4) economic environment, 5) demographic environment, and 6) social-cultural environment. Let us discuss about these factors in a little more detail.

Physical Environment: The earth's natural renewable resources (e.g. forest, food products from agriculture, etc.) and finite non-renewable resources (e.g. oil, coal, minerals, etc.), weather (climatic) conditions, land shapes and water resources are components of an environment which quite often change the level and type of resources available to a marketer for his production. For example, India does not have enough petroleum resources, and imports petrol and other products. India's international relations may facilitate the supply of petrol and diesel. This has lot of implications for the companies consuming petro-products.

Technological Environment: Technology is shaping the destiny of the people. The revolution in computers, electronics and communication in general may make one's production out of the tune with the current products and services. For example, printing technology like laser printing and desk top publishing, has already made the labour-intensive type-set printing uneconomical. Digital printing is tremendously cutting down the cost of large print jobs. New printing has gone a notch higher. 3D printing is being used in the clothing industry.

Political and Legal Environment: Political changes bring in new policies and laws relevant to industry. Government regulation continues with different

intensities and the law and the rules framed thereunder are becoming complex. Many areas of business are brought under one law or the other, and the marketer cannot escape from the influence of these laws. The tax laws, the Goods and Services Tax (GST) excise duty, octroi, income-tax, etc., have direct bearing on the costs and prices of the products and services marketed. So also the policies relating to imports and exports. Since these factors affect all the units, (they do not affect a single marketer alone), these are considered as the forces in the macro environment.

Economic Environment: The state of the economy measurable in terms of the Gross National Product (GNP) and per capita income as well as the favourable or unfavourable position of the balance of trade determine the economic environment. Occurrences of war, famine and per capita income as well as the favourable or unfavourable position of the country. For example, if the monsoon is good, the agriculture output will be more and the people depend on agriculture get more income. This enables people to buy more consumer goods. Thus, the demand for consumer goods increases. Similarly, a bad monsoon will adversely affect the demand for fertiliser. The personal and corporate tax system also determines the available income for spending on a variety of goods.

Demographic Environment: Marketers are keenly interested in the demographic characteristics such as the size of the population, its geographical distribution, density, mobility trends, age distribution, birth rate, death rate, the religious composition, etc. The changing life styles, habits and tastes of the population, have potentials for the marketer to explore. For example, when both husband and wife go for jobs, the demand for gadgets that make house keeping easier and the semi-cooked food products increase.

Socio-Cultural Environment: There are core cultural values which are found stable and deep rooted, and hence change very little. There are also secondary cultural values which are susceptible to fast changes. Some of them like hair styles, clothing, etc. just fade. Even in a given culture, the entire population may not adopt the changes. There are different degrees with which people adopt them. Religion is also an important component of culture which has implications for the marketer. For example, Hindus worship the cow and do not eat beef. So the products made out of beef meat do not have demand. Thus the culture of the society influences the consumption pattern to a certain extent also pervades other human activities by determining their values and beliefs.

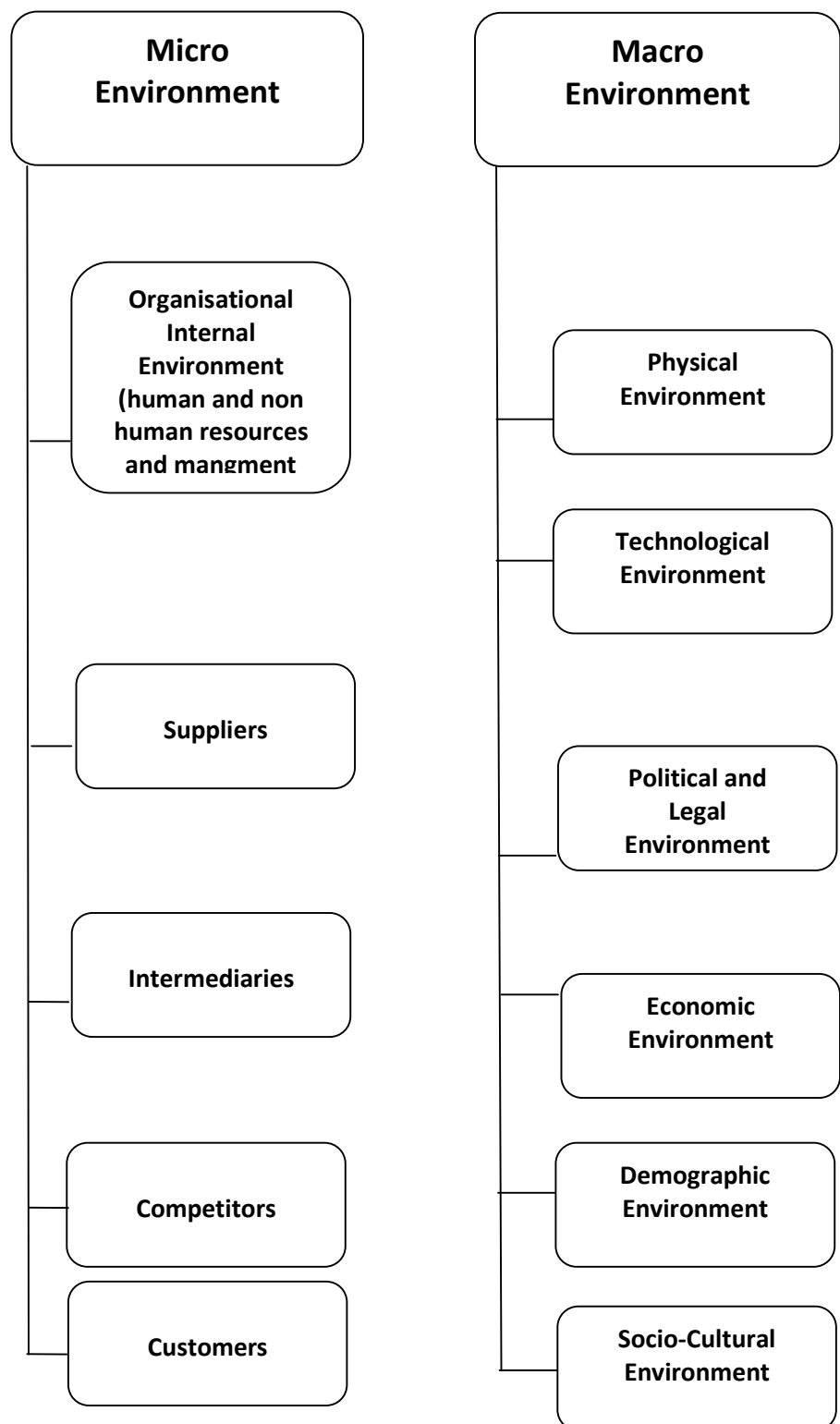


Figure 2.1A: Marketing Environment at a glance

2.3 RELEVANCE OF ENVIRONMENT IN MARKETING

You have studied that the marketing environment of a company comprises a variety of forces. Most of these forces are external to the company and may not be controllable by the marketing executives of the company. So the

marketing system of the company has to operate within the framework of these ever-changing environmental forces. This uncertain marketing environment offers both opportunities, and shocks and threats. Therefore, it is necessary for a company to scan the changing environment continuously, and change the marketing mix strategies in accordance with the trends and developments in the marketing environment.

The company responds to these environmental factors and forces by its policies depending on its own capabilities particularly the finance, sales force and technical facilities. Among all these environmental factors, some of them may be controllable by the organisation to some extent, and others may be uncontrollable. Macro environmental factors are totally uncontrollable by the firm whereas micro environmental factors may be controlled to some extent. For instance, organisation's internal environment can be controlled by the firm to a large extent. Similarly, the firm can exert some influence on suppliers, dealers and distributors by offering liberal terms. A firm can influence the prospective and present consumers through its advertising effort.

Each aspect of the environment has some relevance in marketing. It is easy to imagine how do various environmental factors affect the demand and supply, the distribution and promotional policies, etc. For example, with the oil crisis there will be demand for more oil-efficient machines. Similarly, the popularity of computers will create demand for more computer operators, programmers, voltage stabilizers, etc.

2.4 MARKETING ENVIRONMENT IN INDIA

India is a vast country populated by more than 138 crore people. Its unique feature is its diversity of religions, languages, social customs, regional characteristics, which is both a boon and a bane for the marketer. Its boon because there is tremendous scope for a wide variety of products and services to be successfully marketed and a bane because the marketer often needs to adapt his marketing strategy to suit different tastes and values. There are marketers who may find that the Indian environment is full of profit potential. It means that there are buyers for anything one may produce and there is a market for everything. There are others who take a somewhat pessimistic view by considering the poverty and shortages of requisite inputs. However, one can confidently say that the market is vast, quality consciousness among consumers is increasing, and there is demand for new and improved products and services and these trends may continue for a long time.

Despite 75 years of Independence, India is still dominated by villages and almost 65 per cent of population is located in the rural areas. These rural areas are today enjoying the fruits of the Green Revolution and the purchasing power of the rural population is increasingly demanding attention from the marketer who had so far concentrated only in urban areas. No doubt

the urban areas with their concentration of numbers and market potential are the priority target markets, but a firm which wants to ensure its future survival must start making inroads into the rural market well. Government expenditure on rural development has increased the purchasing power of the rural public. Improvements in transport, communication, literacy etc. have made many new markets accessible. The capacity to see the opportunity and work out an appropriate marketing strategy can open the doors to the marketers.

There are a large number of companies, public sector undertakings, factories and small-scale units, all of which comprise the organisational consumers, operating in the country. While the public sector usually follows a bureaucratic long-winded and time-consuming procedure for making even the smallest purchase, the private sector decision-making is relatively quicker and free of procedures. If you are marketing your products/ services to both the public and private sectors, you may like to think about having separate marketing organisations for them. Another major difference between the public and private sector is in the timing of the purchase decision. The public sector companies have an annual budget sanctioned to them by the government and the money from this is used for purchasing a variety of products. The public sector units feel compelled to use the entire budget amount, because if they do not, they run the risk of having a reduced budget in the subsequent years. You would find a flurry of purchases during the quarter preceding March when the financial year ends. So if the public sector companies are your major consumers, you should bear the timing factor in mind. In case of private sector companies, you would generally not find such a peaking of purchases in any particular month of the year unless it is linked to seasonality of production or sales.

Check Your Progress A

- 1) What is marketing environment?
- 2) Distinguish between micro environment and macro environment.
- 3) You are a manufacturer of play stations and TVs. What will be the effect if Government abolishes import duty on these products?
- 4) Go to a transporting travel agency and ask how did the COVID-19 pandemic affect their business.
- 5) What will be the impact on automobile industry if a new cheaper source of energy is invented?
- 6) Research findings showed that consumption of a particular edible oil is injurious to health. Is this finding relevant to a sweet shop? How?
- 7) If the winter season is severe, which industries lose and which gain?

2.5 GOVERNMENT REGULATIONS AFFECTING MARKETING

A number of laws affecting business have become operational over the years. The important ones affecting marketing are listed below:

- 1) The Indian Contract Act, 1872
- 2) The Indian Sale of Goods Act, 1930
- 3) The Industries (Development and Regulation) Act, 1951.
- 4) The Food Safety and Standard Act, 2006.
- 5) The Drugs and Magic Remedies (Objectionable Advertisement Act), 1954
- 6) The Essential Commodities (Amendment) Act, 2020
- 7) The Companies Act, 2013
- 8) The Trade Marks Act, 1999
- 9) The Competition Act, 2002
- 10) The Patents Act, 1970
- 11) The Legal Metrology Act, 2009
- 12) The Consumer Protection Act, 2019
- 13) Environment Protection Act, 1986
- 14) Bureau of Indian Standard Act, 2016

Some of the legislations mentioned above apply to every undertaking, irrespective of the nature of the product sold or the service provided by it like the Contract Act, the Sale of Goods Act, the Companies Act, the Trade Marks Act and the Legal Metrology Act. The Competition Act, however does not apply to any act of government relatable to sovereign functions including the activities carried on by departments of Central Government dealing with Atomic Energy. Currency, Defence, and Space.

As against this, there are certain legislation listed above which seek to regulate certain decisions of the undertakings engaged in the specific industries. These include the Industries (Development and Regulation) Act, 1951; the Drugs and Magic Remedies (Objectionable Advertisements) Act, 1954; Food Safety and Standard Act, 2006; The Essential Commodities (Amendment) Act, 2020.

It would be too much to expect a marketer to know all about the various Acts listed is above. It is essential for you to have a good working knowledge of the major laws protecting competition, consumers and the larger interest of society. Such an understanding would help you to examine the legal implications of your decisions.

The main reasons for government controls can be summarised as follows:

- protecting the welfare of individuals and promoting higher standards of public health, general well being, safety, etc.
- maintaining equality of opportunity for all persons irrespective of sex, nationality race or religion
- restraining business from engaging in practices harmful to the interests of the public, like making false and misleading statements about a product or service, manipulating prices for personal gains, failing to support warranties, etc.
- protecting small firms from the threats of unfair competition by big firms
- preventing unfair practices resulting from mergers or other forms of combinations
- like price fixing
- conserving national resources especially forests, fuels, water, energy, etc.
- preventing pollution of the environment
- preventing concentration of economic power and industrial wealth
- encouraging widely dispersed industrial growth and the growth of small scale industries
- protecting the economy from dominance by foreign investors and helping save the valuable foreign exchange resources

Let us now briefly discuss about the Acts listed above.

Indian Contract Act (1872)

This act regulates the economic and commercial relations of citizens. The scope of this Act extends to all such decisions which involve the formation and execution of a contract. The essentials of a valid contract are specified and examined in detail.

A contract is an agreement enforceable by law between two or three persons by which rights are acquired by one or more to acts or forbearances on the part of the other or others.

The Act also specifies provisions for the creation of an agency and the rights and duties of a principal and an agent.

Indian Sale of Goods Act (1930)

This act governs the transactions of sale and purchase. A contract of sale of goods is defined as a contract whereby the property in goods is transferred or agreed to be transferred by the seller to the buyer for a price. The Act also lays down rules about passing of property in goods, and the rights and duties of the buyer and seller, rules regarding the delivery of goods as well as the rights of the unpaid seller.

Industries (Development and Regulation) Act (1951)

It is through this Act that the industrial licensing system operates, in effect it empowers the government to licence (or permit) new investment, expansion of licensed units, production of new articles, change of location by the licensed units and also to investigate the affairs of licensed units in certain cases and to take over the management thereof, if conditions so warrant. The objectives behind these powers are, of course, development and regulation of important industries involving fairly large investments which have an all-India importance. It is in the actual implementation of these objectives that the relevant aspects of the industrial policy are expected to be fulfilled.

Industrial licensing is a form of direct state intervention in the market to overrule its forces. The underlying assumption here is that the government is the best judge about the priorities from the national point of view and also that it can do the allocation in a better and socially optimal way. It must, however, be understood that there are economic costs involved in the measures of control and the benefits that are expected to accrue at least equal to or more than the costs involved.

Food Safety and Standard Act (2006)

This act prohibits the publications or issue of advertisement tending to cause the ignorant food articles to ensure purity in the articles of food.

Drugs and Magic Remedies (Objectionable Advertisement) Act (1954)

This act controls advertising of harmful drugs in India. The act prohibits advertisements of drugs and remedies that claim to have magical property.

It prohibits the publication or issue of an advertisement tending to cause the ignorant consumer to resort to self-medication with harmful drugs and appliances.

Advertisements for certain drugs for preventing diseases and disorders like epilepsy, prevention of conception, sexual impotency, etc., are also prohibited. The Act also prohibits advertisements making false claims for the drugs.

Essential Commodities (Amendment) Act (2020)

This act provides for the control of production, supply and distribution in certain commodities declared as essential under Section 2(a) of the Act, in the public interest. Under Section 3(a) of this Act, the government can fix the price of such a commodity

Companies Act (2013)

The Companies (Amendment) Bill 2020 was introduced in Lok Sabha on March, 17, 2020. The Bill seeks to amend the Companies Act, 2013. It is a piece of legislation which has far reaching effects on business by its regulation of the organisation and functioning of companies. It extends to the whole of India. The new law (earlier it was Companies Act, 1956) has enabled the easy process of doing business in India. It aims at improving corporate governance by making companies more accountable.

Trade Marks Act (1999)

This is a replacement of Trade and Merchandise Marks Act 1958. It deals with the trade and merchandise marks registered under this Act. This act protects the trademarks that are well known and safeguard them from infringement. This act protects the well known trademarks in two ways, they are as below:

- 1) an action against the registration of similar marks; and
- 2) An action against the mis-use of the well known mark.

“A mark includes a device, brand, heading, label, ticket, name, signature word and letter of numeral or any combination thereof”. “A trademark is a distinctive symbol, title or design that readily identifies the company or its product”. The owner of the trademark has the right to its exclusive use and provides legal protection against infringement of his right. A trademark is registered for a maximum period of 10 years and is renewable for a similar number of years, each time the period of 10 years expires.

Further, no such trademark should be used which is likely to be deceptive or confusing, or is scandalous or obscene or which hurts the religious sentiments of the people of India.

Competition Act, 2002

The Competition Act, 2002 was enacted by the parliament of India and replaced The Monopolies and Restrictive Trade Practices Act, (MRTP) 1969. This act provides a framework for the establishment of the Competition Commission and the tools to prevent anti-competitive practices and to promote positive competition in the Indian market. The major objectives of the Act are:

- to provide the framework for the establishment of the competition commission.
- to prevent monopolies and to promote positive competition in the market.
- to protect the freedom of trade for the participating individuals and entities in the market.
- to protect the interest of the consumers.

This Act prohibits price-fixing, bid-rigging conspiracies, resale-price maintenance, price discrimination and predatory pricing.

Patents Act (1970)

The provision of this Act are attracted especially where the company intends to produce patented products. A patent is the exclusive right to own, use and dispose of an invention for a specified period. The patent is a grant made by the Central Government to the first inventor or his legal representative. The Patent Act, 1970 along with the Patent Rules 1972, came into force on 20th April, 1972 replacing the Indian Patents and Designs Act, 1911. The Act has been repeatedly amended in the years 1999, 2002, 2005, 2006. The major amendment was in 2005, when product patent was extended to all fields of technology like food, drugs, chemicals and micro-organisms.

The Legal Metrology Act, 2009

The Legal Metrology Act, 2009 replaces the Standards of Weights and Measures Act, 1976 and the Standard of Weights and Measures (Enforcement) Act, 1985. It came into force on 1st April, 2011. The Act rationalises the units of measurements to be used in India. This act was enacted with the objective to establish and enforce standards of weights and measure. It regulates trade and commerce in weights, measurer and other goods which are sold or distributed by weight measure or number and for matters connected therewith or incidental thereto. This act provides regulations for the control of measurements and measuring instruments.

Consumer Protection Act (2019)

The objective of this act is to safeguard buyers of goods and services, and the public against unfair practices. The act aims at protection of the interests of the consumers. For this purpose, authorities are established for timely and effective administration and settlement of consumers disputes and for matters connected therewith or incidental thereto". More importantly, The Consumer Protection Act, 2019 prescribes rules for the sale of goods through e-commerce. Thus, the act gives rise to a new era of consumer rights in India which meet the needs of the new age consumers.

Environment (Protection) Act (1986)

The Environment (Protection) Act provides for the protection and improvement of environment and the prevention of hazards to human beings, other living creatures, plants and property.

Environment includes, water, air and land and the inter-relationship existing between them and the human beings, living creatures, plants, etc. Any solid, liquid or gaseous substances present which may tend to be injurious to environment is an environmental pollutant and the presence therefore is pollution.

The present enactments covers not only all matters relating to prevention, control and abatement of environmental pollution but also the powers and functions of the Central Government and its officers in that regard and penalties for committing offences.

Bureau of Indian Standards Act (2016)

The Act replaces the previous Bureau of Indian Standard Act, 1986. The Bureau of Indian Standards Act provides for the establishment of a Bureau for the harmonious development of the activities of standardisation, marking and quality certification of goods and for matters connected there with or incidental thereto.

Bureau of Indian Standard Act, 2016 establish the Bureau of Indian Standard (BIS) as the National Standards of Body of India. It also allows Central Government to make it mandatory for certain notified goods, articles or process to carry the standard mark. It has been provided that the **Bureau of Indian Standards (BIS)** will be a body corporate and there will be an Executive Committee to carry on its day-to-day activities.

The objective of this act is to intensify efforts to produce higher standard and quality goods to help in inducing faster growth, increasing exports and making available goods to the satisfaction of the consumers.

Check Your Progress B

- 1) List four legislations which apply to all business undertaking.
- 2) List three legislations which affect certain specific industries.
- 3) State whether the following statements are **True** or **False**.
 - i) One of the reasons for Government control of business is to prevent environmental pollution.
 - ii) One of the main objectives of the Consumer Protection Act is to provide redressal mechanism to the consumers against unfair trade practices.
 - iii) Agricultural Prices Commission advises the Government on pricing policies for agro-based industrial products.
 - iv) All the regulatory measures that affect marketing are within the purview of Central Government only.
 - v) The Competition Act intends to control concentration of economic power.
- 4) Fill in the banks :

- i) The Act which prohibits the sale of adulterated food products is.....
- ii)act governs the transactions of sale and purchase.
- iii)act specifies the quantities in which certain products can be packed.
- iv)act provides for the protection of environment.
- v) The..... act provides regulations for the control of measurement and measuring instruments.

2.6 LET US SUM UP

Marketing system of every business organisation is influenced by a large number of uncontrollable factors that surround the company. A company's marketing environment consists of the actors and forces outside the marketing that affect marketing management's ability to develop and maintain successful transactions with its target consumers.

These environmental factors may be classified as micro environment and macro environment. Micro environment refers the companies immediate environment, that is those environmental factors that are in its closer circle. They include the company's own capabilities to produce and serve the consumer needs, the dealers and distributors, the competitors, and the customers. These are also the groups of people who affect the company's prospects directly. The macro environment consists of larger societal forces, which may be placed in an outer circle. These include demographic, economic, natural, technological, political and cultural forces. The influence of these forces are indirect and often take time to reach the company.

Macro environmental factors are totally uncontrollable by the firm whereas micro environmental factors may be controlled to some extent. It is necessary for the company to scan the ever-changing environment continuously, and adopt marketing mix strategies in accordance with the trends and developments in the marketing environment,

A number of laws affecting business have become operational over the years in India. Some of the legislations apply to every undertaking, irrespective of the nature of the product sold or the service provided by it. For example, The Contract Act, The Sale of Goods Act, The Companies Act, The Trade Marks Act and The Legal Metrology Act, The Competition Act, etc. As against this, there are certain legislations which seek to regulate certain decisions of undertakings engaged in the specific industries. These include : The Industrial (Development and Regulation) Act 1951; The Drugs and Magic Remedies (Objectionable Advertisements) Act 1954; The Essential Commodities Act (Amendment) 2020, and The Food and Safety and Standard Act, 2006.

2.7 KEY WORDS

Macro Environment: Large societal forces which exert influence on firm's marketing system. It includes demographic, economic, natural, technological, political and cultural forces.

Marketing Environment: The factors and forces outside of marketing that affect marketing management's ability to develop and maintain successful transactions with its target customers.

Marketing Intermediaries: Firms which help the company in promoting, selling and distributing its goods to ultimate consumers. They include : middlemen, transporters, marketing service agencies and financial intermediaries.

Micro Environment: The environmental factors that are in the closer circles of the firm. It includes :organisation's internal environment, suppliers, marketing intermediaries, customers and competitors.

Suppliers: Firms that supply consumables and raw materials to the company.

2.8 ANSWERS TO CHECK YOUR PROGRESS

- B) 3) i) True ii) True) False iv) False v) True
- 4) i) Food Safety and Standard Act, 2006
- ii) Indian Sale of Goods Act, 1930
- iii) The Legal Metrology Act, 2009
- iv) Environment (Protection) Act, 1986.
- v) Legal Metrology Act, 2009

2.9 TERMINAL QUESTIONS

- 1) What is marketing environment? Describe the macro environment and micro environment of marketing.
- 2) How do environmental factors affect marketing policies and strategies?
- 3) What is marketing environment? Briefly explain the marketing environment in India.
- 4) Compare and contrast a Company's micro and macro environments.
- 5) Briefly explain various regulations that affect the marketing decision in India.
- 6) State various regulations affecting marketing in India and explain their implications.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

UNIT 3 MARKETS AND MARKET SEGMENTATION

Structure

- 3.0 Objectives
- 3.1 Introduction
- 3.2 What is a Market?
- 3.3 Types of Markets and their Characteristics
 - 3.3.1 Consumer Market
 - 3.3.2 Organisational Markets
- 3.4 What is Market Segmentation?
- 3.5 Importance of Market Segmentation
- 3.6 Requirements for Segmenting a Market
- 3.7 Bases for Segmentation
 - 3.7.1 Bases for Segmenting Consumer Markets
 - 3.7.2 Bases of Segmenting Organisational Markets
- 3.8 Market Targeting and Positioning
 - 3.8.1 Evaluation of Potential Targets
 - 3.8.2 Market Targeting Strategies
- 3.9 Positioning
- 3.10 Repositioning
- 3.11 Let Us Sum Up
- 3.12 Key Words
- 3.13 Answers to Check Your Progress
- 3.14 Terminal Questions

3.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning of a market;
- state different types of markets and explain their characteristics;
- describe the meaning and significance of market segmentation;
- narrate the requirements for market segmentation; and
- explain various bases for market segmentation.

3.1 INTRODUCTION

In Units 1 and 2 you have studied the meaning, nature and scope of marketing, and marketing environment. To be successful in your marketing efforts, it is essential to understand the characteristics of the market for your product, and concentrate your efforts on the segment where the prospects are bright. This is necessary because it is not practically possible to sell the same product to all the consumers, as all consumers may not have the same need or taste or buying capacity. In this unit, you will study the meaning of a market, classification of markets and their characteristics. You will also study the meaning and importance of market segmentation, requirements of segmentation and bases of segmentation.

3.2 WHAT IS A MARKET?

The term market has more than one meaning. The term market in common parlance refers to a place where several shops of buyers or sellers may be located. Economists use the term to refer to a collection of buyers and sellers who transact a particular product or a range of products: such as computer market, two-wheelers market, fashion goods market, etc. But marketers do not agree with economists as they consider the sellers as constituting the industry and the buyers as constituting the market. For marketers, a market consists of all the potential customers sharing a particular need or want who might be willing and able to engage in and exchange to satisfy that need as want.

Thus, to a marketer, a market is the set of all actual and potential buyers of product. In this unit, we will consider the definition of a Market given by the marketers. According to this definition, if 100 varieties of products are produced in the country, there are 100 distinct markets. In this regard market may be spread throughout the breadth and length of the country.

3.3 TYPES OF MARKETS AND THEIR CHARACTERISTICS

As you know, individuals buy various goods for their own consumption, business enterprises buy goods for reselling, manufacturing concerns buy goods for further production, and so on. Thus, there are several types of buyers who buy goods and services by adopting different procedures and practices for securing goods for different purposes. For proper understanding of the market, therefore, it is essential to classify the markets on the basis of the type of buyer group. As such, markets are classified into two broad groups. They are: 1) consumer markets and 2) organisational markets. Let us study these two types of markets in detail.

3.3.1 Consumer Markets

Here consumers mean all the individuals and households who buy goods and services for personal or household consumption. Thus, **the consumer market consists of all the individuals and households who buy or acquire goods and services for their own personal or household use.** They buy strictly to satisfy their non-business personal wants. For instance, a person purchases items such as toothpaste, soap, biscuits, sweets, etc., for his/her personal consumption or family consumption. But when an individual buys goods for resale or for further production, such an individual is not treated as belonging to the consumer market.

These ultimate consumers are large in numbers and spread throughout the country. They also vary tremendously in age, income, educational level, tastes, preferences etc. Consumer purchases are influenced by cultural, social, personal, economic and psychological characteristics of the buyer. Buying decision process of consumers involves five stages: 1) problem recognition, 2) information search, 3) evaluation of alternatives, 4) purchase decision, and 5) post-purchase behaviour. You will study in detail about consumer market in Unit 4.

3.3.2 Organisational Markets

There are three types of organisational markets:

- 1) **Industrial Market:** It consists of all the individuals and organisations that buy or acquire goods and services that enter into the production of other products and services that are sold, rented or supplied to others. For example, a furniture manufacturing firm purchases raw materials such as wood, iron tubes cushions, cloth, etc., manufactures furniture, and sell it. Here the firm purchased **required raw material** to use in the manufacture of furniture which is meant for sale. The major types of industries comprising industrial markets are: 1) agriculture, forestry, and fisheries, 2) mining, 3) manufacturing, 4) construction, 5) transportation, 6) communication, 7) public utilities, 8) banking, finance and insurance, and 9) services.
- 2) **Reseller Market:** It consists of individuals and organisations who acquire goods purchased by others and resell them either to industrial consumers or ultimate consumers. In the case of the sellers like small wholesale and retail organisations, buying is done by one or a few individuals. In large scale reselling organisations, buying is done by an entire purchasing department. When the resellers buy new items, they go through a buying process similar to the one shown for industrial buyers, which we will discuss later in this unit. Similarly, in the case of standard items, the buying process consists of routines for reordering and renegotiating contracts.

- 3) **Government Market:** It consists of government agencies (central, state and local bodies) who purchase goods for meeting the requirements of government. Government agencies buy an extensive range of products and services. Each product that the government buys requires specific decisions related to how much to buy, where to buy, how much to pay, what services are required, etc. Normally, government buyers call for quotations/tenders and favour the lowest-cost bidder who can meet the stated specifications. A unique thing about government buying is that it is carefully monitored by auditors and others. Several Committees of MPs and MLAs have exposed government extravagance and waste. Auditors and Comptroller General also check whether proper procedure is followed in buying the goods or not. Many newspaper magazine groups also investigate to know how government agencies spend the public money. As government organisations are accountable to public, they strictly follow certain procedures which involve a lot of paper work. A number of forms must be filled and approval of concerned authorities is required before purchases are made. Marketers have to find a way to cut through the red tape.

When we deal with organisational markets, we must take into account several considerations which are not normally found in consumer marketing.

- 1) Industrial organisations buy goods and services for the purpose of making profits or reducing costs. They prescribe their own product specifications, and buy those goods which meet such specifications and quality control norms.
- 2) In organisational buying more persons tend to participate in buying decisions than in consumer buying decisions. The decision-making participants usually have different organisational responsibilities and apply different criteria to the purchase decision.
- 3) The organisational buyers also follow formal policies and procedures established by their organisations.
- 4) The buying instruments such as request for quotations, proposals, purchase contracts, etc., add another dimension not found in consumer buying.

Main Features of Organisational Markets

Organisational markets have certain characteristics which distinguish them from consumer markets. These characteristics are described below:

- 1) **Fewer Buyers:** Normally organisational buyers are less in number compared with household consumers. Therefore, an industrial marketer normally deals with fewer buyers than does the consumer marketer. For instance, if a tyre manufacturing company wants to sell its tyres in the industrial market, it may concentrate on one of the big automobile

manufacturing concerns. When the same firm wishes to sell tyres to consumers (vehicle owners) it has to contact a few lakh vehicle owners.

- 2) **Larger Buyers:** Organisational buyers normally require large quantities of goods whereas household consumers require smaller quantities. Thus, industrial buyers are large scale buyers. Even among industrial buyers a few large buyers normally account for most of the purchasing. In such industries as motor vehicles, telephone, soaps, cigarettes, synthetic yarn etc., a few top manufacturers account for more than a substantial part of total production. Such industries account for a major share of raw material bought in the market.
- 3) **Geographical Concentration:** Organisational buyers are mainly concentrated in a few places like Mumbai, Kolkata, Delhi, Chennai, Bangalore, Pune, Hyderabad, etc., whereas consumers are spread throughout the country. Because of this geographical concentration of industrial markets, the marketers need not establish a marketing network throughout the country. This helps in reducing the cost of selling.
- 1) **Derived Demand:** The demand for industrial goods is ultimately derived from the demand for consumer goods. For instance, a shoe manufacturing company purchases leather and produces shoes. If there is good demand for shoes, then the company will buy more leather to produce more shoes to meet the increased demand. If the demand for shoes declines, demand for leather will also decline as the company produces lesser number of shoes. Thus, the demand for industrial goods is dependent on the consumer goods.
- 2) **Inelastic Demand:** The price elasticity of demand for many industrial goods and services is low, which means that the total demand is not much affected by price changes. For example, a shoe manufacturer may not buy more leather with the fall in the price of leather. But when the demand for his shoe is more, will buy more leather to produce enough number of shoes to meet the increased demand. Similarly, he will not reduce the quantity of leather purchased if the price of leather rises, unless there is a cheaper substitution to leather or there is a way to economise the leather consumption. Demand is especially inelastic in the short run because it is not easy to bring in changes in the production methods. Demand is also inelastic for industrial, goods that constitute a minor share in the total cost of the product. At the same time, producers will use price information to decide from which supplier to buy, although it will have less effect on the quantity bought.
- 3) **Fluctuating Demand:** The demand for industrial goods and services tends to be more volatile than for consumer goods and services. This is especially true of the demand for new plant and equipment. A given percentage increase in consumer demand can lead to a much larger percentage increase in the demand for necessary plant and equipment to

produce the additional quantity in order to meet the increased demand. Economists refer to this as the acceleration principle.

- 4) **Professional Purchasing:** Most of the organisations have professionally trained in personnel in the purchasing division. Goods are purchased by these specialists. There are professional journals which provide information for the benefit of these professional buyers. Consumers, on the other hand, are less trained in the art of careful buying. In industrial purchasing, if the buying decision is complex it is likely that several persons will participate in the decision-making process. Purchase committees comprising technical experts and top management are common in the purchase of major goods.
- 8) **Miscellaneous Characteristics:** There are some additional characteristics of organisational markets:
 - i) **Direct purchasing:** Organisational buyers often buy directly from producers rather than through middlemen, especially such items which are technically complex and/or expensive.
 - ii) **Reciprocity:** Organisational buyers often select suppliers who also in turn buy from them. An example of this reciprocity may be a paper manufacturer who buys chemicals from a chemical company that is buying a considerable quantity of its paper. Even in this reciprocal buying, the buyer will make sure to get the supplies at a competitive price, of proper quality and service.
 - iii) **Leasing:** Industrial buyers are increasingly turning to equipment leasing instead of outright purchase. This happens with computers, machinery, packaging equipment, heavy construction equipment, delivery trucks, machine tools and automobiles. The leasee receives a number of advantages such as more capital goods with less investment, availability of latest products, better servicing, tax advantages, etc. The lessor often gets larger net income, and can sell to customers who may not be able to afford outright purchase.

Major Types of Buying Situation: There are three types of buying situations followed by organisational buyers:

- 1) Straight rebuy from the same supplier, which is a fairly routine decision
- 2) Modified rebuy where you buy the same product with some more specifications, new terms of supply, etc. It requires some research for placing a purchase order.
- 3) New task of buying which requires thorough research to identify the product suppliers and finalise the purchase contract.

Check Your Progress A

- 1) What is a market?
- 2) Differentiate between consumer markets and organisational markets.
- 3) Distinguish between industrial markets and reseller markets.
- 4) State to which type of market the following transaction belong.
 - i) Cigarettes bought by a person for smoking.
 - ii) Soaps bought by a super bazar.
 - iii) Sugar bought by a sweet shop.
 - iv) Printing machine sold to a printing press.
 - v) Computers purchased by the Municipal Corporation of Delhi.
 - vi) Car tyres purchased by Maruti Udyog Ltd.
 - vii) Car tyres purchased by Mr. Satish.

3.4 WHAT IS MARKET SEGMENTATION?

Lack of homogeneity may be seen in the real world in both supply side and demand side. On the supply side, many factors, like difference in production equipment and processing techniques, difference in the nature of resources or inputs available to different manufacturers, progress among the competitors in terms of design and improvement, etc., account for the heterogeneity. As a result, imperfect markets in which firms lack uniformity in their size and influence) are common. This problem may be solved to some extent, by market segmentation.

Now the question is, what is market segmentation? As you know, a market refers to a set of all actual and potential buyers of a product. It means that buyers in the same market seek products for broadly the same function. But different buyers have different evaluative criteria about what constitutes the right product for performing the same function. For example, take the case of scooter market. Some buyers prefer Bajaj scooter, some prefer LML and others like Kinetic Honda. Thus, within the same market there are submarkets that differ significantly from one another. This lack of homogeneity within the same market may be due to the differences in buying habits, the ways in which the product is used, motives for buying, etc. Therefore, it is necessary to divide the market into homogeneous submarkets for successfully marketing the product. **Market segmentation, thus, is the process of dividing the total market into one or more parts (submarkets or segments) each of which tends to be homogeneous in all significant aspects.**

Based on the above discussion, now we can say that a market segment refers to a submarket (a part) of the market which is homogeneous in all significant

aspects. The strategy of market segmentation involves the development of two or more different marketing programmes for a given product or service, with each marketing programme aimed at a different market segment.

A strategy of marketing segmentation requires that the marketer first clearly defines the number and nature of the customer groupings (market segments) to which he intends to offer his product or service. This is necessary (though not sufficient) condition for optimising efficiency of marketing effort against those segments of the total market where it is likely to yield higher return on effort and investment.

The alternatives strategies of market segmentation are: 1) undifferentiated marketing 2) differentiated marketing and 3) concentrated marketing. In **undifferentiated, marketing**, the marketer exposes only one product and tries to draw all buyers with one marketing programmes. **Differentiated marketing** involves designing of separate products and marketing programmes for each segment. Usually, this strategy is costly due to product modification costs, production cost, administrative costs, inventory costs and promotion costs. Unless the segments is substantial, these costs may prove to be a burden to the marketer. In **concentrated marketing**, the marketer concentrates all his efforts in one or a few lucrative segments only.

In general, homogeneous markets are best exploited by undifferentiated marketing. The differentiated or concentrated marketing is adopted in the case of heterogeneous markets. The stage of the product in its life cycle is also a relevant factor in this regard. Undifferentiated marketing or concentrated marketing may be adopted to develop primary demand at the stage of introduction. Even the strategy of concentrated marketing may be employed at this stage. At the saturation the differentiated marketing becomes necessary.

The concept of market segmentation should not be mixed up with the concept of product differentiation. These two are only related product strategies. Product differentiation is resorted in order to differentiate one's product from a competitor's product and thereby eliminate price competition. This strategy is usually adopted by companies selling standardised products (such as soaps) to a fairly homogeneous market. To reduce competition, many resort to both market segmentation and products differentiation. Market segmentation is resorted in order to penetrate a limited market in depth, while product differentiation is used to secure breadth in the market. It may be said that the product differentiation seeks to secure a layer of the market cake, whereas market segmentation strategy strives to secure one or more wedge-shaped pieces. Compared to product differentiation, segmentation of markets is only a transitory phenomenon.

3.5 IMPORTANCE OF MARKET SEGMENTATION

In marketing a product it is not possible to appeal to all buyers in that market. The buyers are numerous, widely scattered, and varied in their buying requirements and buying practices. Some competitors may be in a better position to serve a particular segment of the market. Each company has to identify the most attractive segment of the market which it can serve effectively. Accordingly, market segmentation has the following advantages:

- 1) You need not waste your marketing efforts over the entire area. You can concentrate on a specific segment and achieve better.
- 2) As you are not treating all customers alike, you can take care of specific requirements of each segment more effectively.
- 3) It helps to pay proper attention to particular areas.
- 4) Market segmentation enables you to frame and adopt separate policies to meet the needs of the different buyer groups.
- 5) You can use the advertising media effectively by developing promotional programmes specifically for each segment.
- 6) More efficient use of the marketing resources is possible.
- 7) Each of the 4Ps of the marketing mix-(product, price, promotion and physical distribution) can be designed with the target market in mind.

3.6 REQUIREMENTS FOR SEGMENTING A MARKET

The variable on the basis of which the market is segmented should be capable of measurement and quantification. It should not be merely a subjective phenomenon. For this measurement, adequate data should be available or be capable of being collected. If the data is not available and not quantifiable, the segmentation will be difficult or unscientific.

The objective of segmentation is effective direction of marketing efforts to specific segments. Therefore, the segments themselves should be accessible through various channels of distribution advertising media, sales force, etc. If the accessibility is difficult, segmentation will become meaningless. The purpose of segmentation is, sometimes, to evolve separate marketing programmes or develop separate products to cater to the needs of separate segments of consumers. So the segments should be large enough to warrant such efforts. Otherwise, various diseconomies in production, marketing, inventory holding, etc., may arise. To be useful, market segments must exhibit the following characteristics:

Measurability: It is the degree to which the size and purchasing power of the segments can be measured. Certain segmentation variables are difficult to measure. For instance, it is difficult to measure the size of the segment of teenage smokers who smoke primarily to rebel against their parents.

Accessibility: It refers to the degree to which the segments can be effectively reached and served. Suppose, a perfume manufacturing company finds that the regular users of its brands are unmarried men who are out late at night and frequently visit bars. Unless this group of men lives in a specific locality or do shopping at certain places, for the company it will be difficult to identify them and reach them. When markets are segmented, each segment should be accessible and approachable.

Substantiality: The segments should be large enough to make efforts yield enough profits. A segment should be the largest possible homogeneous group worth going after with a definite marketing programme. For example, for an automobile manufacturer it may not be profitable to develop cars for a category of persons whose height is more than 7 feet, because the number of such persons will be few.

Actionability: It is the degree to which effective programmes can be formulated for attracting and serving the segments. A small tourist car operator, for example, identified seven market segments, but its staff was too small to develop separate marketing programmes for each segment.

3.7 BASES FOR SEGMENTATION

As you know, market segmentation means dividing the market into several homogeneous submarkets or segments. Now the question is: what is the basis of segmenting the market? In fact, there is no single way to segment a market. A marketer has to try different segmentation variables to view the market structure,

You have learnt that the market can be broadly divided into two categories: consumer market and organisational market. But this is too broad a segmentation. We need to identify some of the widely used bases for segmenting these two broad market segments i.e., organisations markets and consumer markets. Now let us start with the bases of segmenting consumer markets.

3.7.1 Bases for Segmenting Consumer Markets

Broadly, there are four bases for segmenting the consumer market. They are: 1) geographic, 2) demographic, 3) psychographic, and 4) behaviouristic factors. These are also presented in Figure 3.1.

Geographic Segmentation

Geographic segmentation calls for dividing the market into different geographical units such as nation, states, regions, cities, neighbourhoods, etc.. In this type of segmentation, the company decides to operate in one or a few geographical segments or operate in all but pay attention to variations in geographical needs and preferences.

Demographic Segmentation

Demographic segmentation consists of dividing the market into groups on the basis of demographic characteristics of consumers such as age, sex, family size, income, occupation, education, religion, race, nationality, etc. Demographic variables are the most popular bases for distinguishing customer groups. One of the reason for preferring demographic bases is that consumer wants, preferences and usage rates are often highly associated with demographic characteristics. Another reason is that demographic variables are easier to measure than most other types of variable even when the target market is described in non-demographic terms (say, a personality type), it should be linked back to demographic characteristics in order to know the size of the target market and to reach it effectively. Let us discuss how certain demographic variables which can be applied to market segmentation.

- 1) **Age and life cycle stage:** Consumer wants and capacities change with age. For instance, children of six months age differ from children of three months age in their food requirements and consumption potential. A toy manufacturer realized this and designed twelve different toys to be used by babies sequentially as they grow from the age of three months to one year. This segmentation strategy enables customers to identify the appropriate toys suitable to their children by simply considering the age of the child.
- 2) **Sex:** Segmentation of markets based on sex has been followed in the case of production such as clothing, cosmetics, magazines, etc. Occasionally, marketers of other products also adopt sex as a basis of segmentation. In this context, garments, toilet soaps and shoes markets are some good examples. Another industry that is beginning to recognize sex as a basis of segmentation is the two wheeler automobile industry. In the past, two wheelers were designed to appeal to the male. With the increase in the number of working women, some manufacturers are studying the opportunity to design scooters suitable for women.
- 3) **Income:** Income is another basis of segmenting the markets for automobiles, clothing, cosmetics and travel. Other industries occasionally, adopt this basis. However, at macro level the per capita income of a person or family can be a basis for segmentation. Accordingly, segmentation could be made in terms of low, middle and higher income groups. Price may be the sole criterion to fit into particular per capita income group. It is more so at the lower levels of income. As the income goes up, other non-economic considerations or bases have a greater influence.

Psychographic Segmentation

In psychographic segmentation buyers are divided into different groups on the basis of their social class, life style, personality characteristics, etc. People within the same demographic group can exhibit very different psychographic profiles. Let us understand about some of the psychographic bases of segmentation.

- 1) **Social class:** Social class has a strong influence on the person's preferences in cars, clothes, home furnishings, leisure activities, reading habits, and so on. Many companies design products and services keeping in mind specific social class and adopt the marketing strategies that appeal to that social class.
- 2) **Life style:** People's interest in various goods is influenced by their life styles. In fact, the goods they consume express their life style. Marketers of various products and brands are increasingly segmenting their markets by consumer life styles. For example, a manufacturer of blue jeans may design jeans styled for a specific male group. Each group may require different jeans designs, price advertising appeal, outlets, and so on. Unless the company identify the specific group and adopt a suitable marketing strategy, its jeans may not appeal to any one.
- 3) **Personality:** Marketers also use personality variables to segment markets. They design their products with appropriate brand images that correspond to consumer personalities.

Behaviouristic Segmentation

In behaviouristic segmentation, buyers are divided into groups on the basis of their knowledge attitude, use, or response to a product. Many marketers believe that behaviouristic variables are the best starting point for identifying market segments. In this category, the following bases are adopted to segment the markets.

- 1) **Occasions:** Buyers can be distinguished according to occasions when they get the idea of buying or make a purchase or use a product. For example, tourist travel is influenced by occasions related to festivals, vacations, etc. A tourist bus Operator can specialise in serving people during one of these occasions. Occasion segmentation can help firms build up product usage. For example, fruit juice may be commonly consumed during a tour. A juice producing company can promote its orange juice in tourist areas.
- 2) **User status:** Many markets can be segmented into non-users, ex-users, potential users, first-time users and regular users of a product. Companies which enjoy the higher share of the market may be particularly interested in attracting potential users. Potential users and regular users require different kinds of marketing appeals.

- 3) **Usage rate:** Markets can also be segmented on the basis of extent of usage of the product as light, medium, and heavy user groups. This is also referred to as volume segmentation. Heavy users are often a small percentage of the market but account for a high percentage of total consumption.
- 4) **Loyalty status:** As you know, consumers are loyal to brands, stores and other entities. A market can also be segmented by consumer loyalty patterns. Let us consider here brand loyalty. Suppose there are five brands A,B,C,D and E. Buyers can be divided into four groups according to their loyalty status. 1) **Hardcore loyalists** who buy one brand all the time. Thus, a buying pattern of A, A, A, A, A, A, represents a consumer with undivided loyalty to brand A. 2) **Soft-core loyalist** who are loyal to two or three brands all the time. Thus, a buying pattern of A, A, B, B, A, B, represents a consumer with a divided loyalty between A and B. 3) **Shifting loyalists** who shift from one brand to another. The buying pattern A, A, A, B, B, B, would suggest a consumer who is shifting brand loyalty from A to B. 4) **Switchers** who show no loyalty to any brand. The buying pattern A, C, E, B, D, B would suggests a non-loyal consumer. Each market is made up of the above four types of buyers and to approach each buyer group, different marketing strategies are required. A brand-loyal market is one with a high percentage of the buyers showing hard core brand loyalty. Thus the toothpaste market seems to be fairly high brand-loyal market. Companies selling in a brand loyal market have a hard time gaining more market share, and companies trying to enter such a market have a hard time getting in.
- 5) **Attitude:** Consumers of a product can be classified by degree of their enthusiasm for the product. Five attitude classes can be distinguished: **enthusiastic, positive, indifferent, negative, and hostile**. If you adopt a door-to-door campaign for your product, sales personnel who are involved in the campaign can assess the attitude of the households and decide about the time to be spent with them. More time may be spent with enthusiastic prospects reminding them to buy. Trying to convince negative and hostile prospects would be a waste of time. To the extent that attitudes are correlated with demographic descriptions, the organisation can increase its efficiency in reaching the best prospects.

3.7.2 Bases of Segmenting Organisational Markets

Organisational markets can be segmented with many of the same variables used in segmenting the consumer goods markets. Organisational markets can be segmented geographically and by several behaviouristic variables, benefits sought, user status, usage rate, loyalty status, and attitudes. In particular, **there are three commonly used bases:1) type of customer 2) size of customer, and 3) type of buying situations.**

Type of Customer : A common way to segment industrial markets is by end users. Different end users often seek different benefits and can be approached with different marketing mixes. As explained earlier, major types of industrial markets are: 1) agriculture, forestry and fisheries, 2) mining, 3) manufacturing, 4) construction, 5) transportation, 6) communication, 7) public utilities, 8) banking, finance and insurance, and 9) services. This is an accepted classification known as Standard Industrial Classification (SIC) Code. Each of this type is further divided upto very minute levels and, accordingly, directories of industries are published.

Customer Size: Customer size is another variable used for segmenting organisational markets. Many companies set up separate systems for dealing with major and minor customers. For example, Steelcase, a major manufacturer of office furniture, divides its customers into two groups as major accounts and dealer accounts. Accounts of large and reputed companies come under major accounts. Such accounts are handled by national account managers working with district field managers. Smaller accounts are categorised as dealer accounts. These accounts are handled by the field personnel working with franchised dealers who sell steelcase products.

Type of Buying Situations: We have already identified three types of buying situations: 1) **new buy**, 2) **modified buy**, and 3) **straight re-buy**. These buying situations, as you know, are different from each other in a significant way. An industrial seller can segment his market on this basis of buying situations and adopt marketing strategies accordingly.

Look at Figure 3.1 carefully. It summarises the discussion on bases of segmenting the markets.

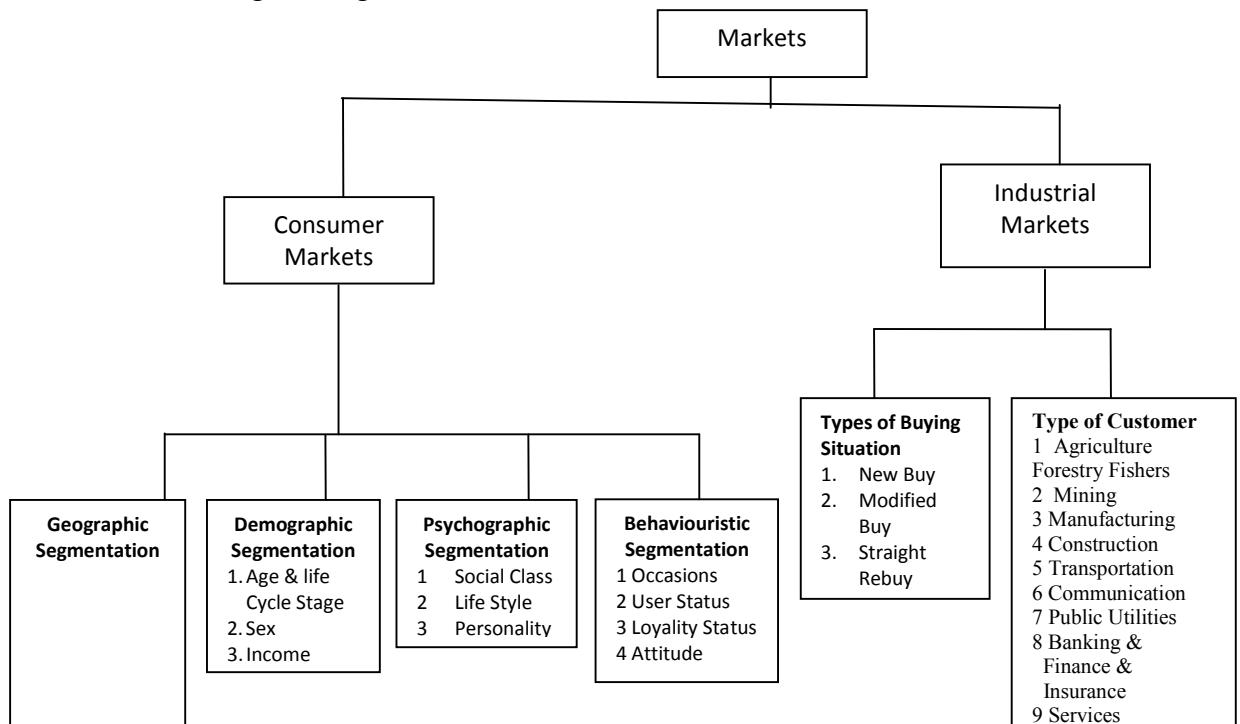


Figure 3.1 Bases of Segmenting the Markets

Check Your Progress B

- 1) What is the difference between market segmentation and market segment ?
- 2) Differentiate between product differentiation and market segmentation.
- 3) List the important bases of segmenting organisational markets.
- 4) State whether the following statements are **True** or **False**.
 - i) Market segmentation refers to classification of markets on the basis of the products.
 - ii) A segment of a market is normally homogeneous in all significant aspects,
 - iii) In undifferentiated marketing, the marketer concentrates all his efforts in one or a few lucrative segments only.
 - iv) Market segmentation enables the marketer to identify and reach the target customer more effectively.
 - v) Same bases can be used for segmenting industrial markets and consumer.

3.8 MARKET TARGETING

By applying the learning from the market segmentation, you as a business manager will be able to identify your firm's markets segment opportunities. These opportunities have to be evaluated to select either one or a number of strategically significant segments for launching your marketing program. It is a stage where the firm has to evaluate different segments and decide how many and which ones to target for. This method is called market targeting. **A target market is defined as a set of buyers sharing common needs or characteristics that the company decides to serve.** It is very important to select the target market to which the company decides to serve because knowledge about how do the consumers decide, what are the criteria of buying products, the characteristics and life style of the targeted customers can help the marketers to develop a suitable marketing strategy. Every marketing strategy involves marketing expenditure and the return on a market program. This can be identified if we are able to know the target market for which the marketing program is targeted. It is observed from research that a majority of the marketing expenditure is actually wastage of company resources as they are spent on non buyers. So an understanding of the nature and characteristics of the target market will help the marketer to derive higher returns on a marketing program. Knowledge on the target market and its growth and changes in attitude will help the marketer to modify and design new marketing programmes for the success of the enterprise as a whole. Hence, an understanding of the target market and measurement of their attractiveness is a key decision in marketing.

3.8.1 Evaluation of Potential Targets

After the firm has identified the target markets, the next task is to evaluate the target segments. **The marketing manager should look at five factors for evaluating each segment. They are: segment size and worthwhileness, segment measurability, segment attractiveness, accessibility of the segment, company objectives and resources.** The company should first collect and analyze data on size of the current segment, growth rates in the past and the likely rate of growth from the market indicators for the future on short term and long term basis, and expected profitability from each segment. One of the best ways to calculate the profitability is to find out through the calculation of response elasticity. Response elasticity can be calculated by taking past marketing expenditures as independent variable and the returns from the past marketing expenditures in different periods of time. A graph of response elasticity where responses (sales) on the Y-axis and the corresponding marketing expenditures on the X-axis is a sufficient indicator about the profit growth potential in each of the segments. The myth of marketing says that the fastest growing and largest size markets may not be so for a long period of time. Hence future profitability may slow down as more competitors will enter in to the business looking at the profit potential. So a marketer should be careful about this behaviour of the market. The segments identified should be also measurable from its size and market share from the potential market. The segments should also be evaluated from the point of view of accessibility as there may be a very attractive segment available but the cost to reach at that segment and serve the segment will be higher compared to segments where potential may seem moderate. The Indian rural market suffers from this problem of accessibility. The company should also evaluate the resources available for market coverage. If the company lacks the skill and resources then it should concentrate on markets geographically closer or with a higher density of potential customers in limited markets called **a niche segment**.

3.8.2 Market Targeting Strategies

You have learnt the meaning of targeting, let us now look at what are the various strategic options available to the marketers for targeting their products and services in the market. The targeting strategy will largely depend upon the kind of product market coverage that the firm takes for the future. The resources, capabilities and intent of the respective firms influence this product market coverage decisions. The product market coverage strategies are broadly classified as concentrated marketing, differentiated marketing and undifferentiated marketing. Let us learn them in detail.

Concentrated Marketing: When company resources are limited and the competition is intense enough that the marketing manager has to stretch the market budget for market coverage, the companies follow a concentrated marketing strategy. **The company decides to cover a large niche than fighting for a small share in a large market.** It is an excellent strategy for

small manufacturers those can stay closer to the segment and cater to the emerging needs of a close loop customers. This helps them to gather market share in small markets against strong and large competitors. Through concentrated marketing firms can achieve strong market positions in the segments or niches they serve because of the greater knowledge of the target customers and the special reputation they acquire. Medimix was a regional brand with a very strong South Indian presence that helped them to go for a national launch in a latter period. The firms can enjoy operating economies because of the specialization in production, distribution and promotion, which can give a higher return on the investments also. Concentrated marketing strategy has its own share of risk also. Looking at the profit potential large competitors may decide to enter in to this market, which may ultimately lead to a take over bid by the large player in business.

Differentiated Marketing: In differentiated marketing strategy, **marketers target several market segments and design separate offers for each segment.** They target several segments or niches with a varied marketing offer to suit to each segment needs. For example, Maruti as an automobile company has the distinction of having products for different segments. Where as its Alto is targeted for the upcoming middleclass, the Baleno is targeted for the middle class and Ciaz is targeted for upper middle class people and Eeco Omni is targeted for large families. The main objective of offering varied marketing offer is to cater to different segments and get higher sales with a dominant position on each segment. Developing a stronger position within each segment creates more total sales than a mass marketing strategy across all segments. The risk involved in this kind of a marketing strategy is in the form of extra cost in marketing research, product development, different forecasting models, varied sales analysis, promotion planning and channel management. Trying to reach different market segments with different promotion plan involves higher promotion budget. Thus, the marketing manager has to decide the pay off between the higher cost and the higher sales due to such a strategy.

Undifferentiated Marketing: Marketers may go against the idea of a segmented market and decide to sale the product in the whole market. **Here the marketing manager ignores the idea of segment characteristics differences and develop a marketing program for the whole market.** This approach keeps the over all marketing costs low and makes it easier to manage and track the market forces uniformly. Here the marketer tries to find out the commonality across the segments rather than focusing on the differences. The company designs a marketing offer and a marketing program that will appeal to the largest number of buyers with a mass distribution and mass advertising program. The problem of this strategy lies in finding a common product and marketing program catering to large number of customers with different characteristics and interests. Here the marketer finds it difficult to fight with focused players in business.

Choosing a Product - Market Strategy

As mentioned earlier, the market coverage strategy largely depends on company's resources and ability to cater to the market. The best strategy also depends on the product variability. Undifferentiated marketing suits best to uniform products and commodities like petrol, steel and sugar. The product's life cycle is also another important factor considered while selecting a market coverage strategy. At the Introductory stage of a product, the company will prefer a single product in an undifferentiated market or concentrated market. In the maturity stage of the product life cycle, many players follow differentiated marketing strategy. If all the customers have uniform taste, buy the same amount and respond to a marketing program in the same way then market variability is minimum. So an undifferentiated marketing strategy is most suitable. Every marketing manager should also look at the competitor's marketing strategy. If the competitor is following a differentiated strategy with specific offer for distinct segments then an undifferentiated marketing Strategy will be fatal to follow in the market but the vice versa is a suitable strategy for the marketer.

Check Your Progress A

- 1) Distinguish between segmentation and market targeting.
- 2) Distinguish between concentrated marketing and differentiated marketing.
- 3) Explain the concept of segment evaluation.

3.9 POSITIONING

After the company has decided its market targeting strategy, the next managerial challenge is to decide what position it wants to occupy in the selected segment(s). **Kotler has defined product positioning as the way the product is defined by consumers on important attributes - the place - the product occupies in consumer's mind relative to competing products.** Thus product's position reflects important attributes which a consumer gives to the product. It is the position in the perceptual space of the consumer's mind that the product takes in relation to competitor's products, which is often verbalized by customers on certain attributes. Product positioning depends on market structure, competitive position of the firm and the concepts of substitution and competition among products.

Product positioning reflects most of the features of the word position. For example, position of a place - what place does the product occupy in its market, a rank, how does the product fare against its competitors in various evaluative dimensions and a mental attitude - what are consumer attitudes i.e., the cognitive, effective and action tendencies towards the given product. Therefore product positioning should be assessed by measuring consumer's

or organisational buyer's perceptions and preference for the product in relation to its competitors.

Brand positioning involves implanting the brand's unique benefits and differences in customer's mind. A Maggi noodle is positioned in Indian market as a convenience food, which can solve the frequent food demand of the growing kids. Dove soap is positioned as a premium brand in the market with high moisturizer content which can be used as a face wash also. Vicks Vapo-rub is positioned as a rub exclusively for the purpose of cold and cough relief.

3.10 REPOSITIONING

Repositioning is a critical decision in marketing. The manager can go for repositioning due to two reasons viz. the failure of the current positioning strategy due to the three positioning mistakes like under positioning, over positioning and confused positioning, the opening up of another positioning opportunity due to evolution of the customers on value life cycle or emergence of new technology to redefine the structure of competition. Brand managers normally undertake brand tracking and monitoring studies to identify the gap between the desired positioning or stated position through brand communication and the perceived position by the customers. Any substantial gap in these two measures will warn the brand managers to go for a reposition decision. Similarly, the customers and their value expectation from a brand undergo change over a period. Brands, symbols and ideas prevalent in one period may not stand significant at a different time due to this value migration of customers.

Therefore, a customer centric company will prefer to reposition the brand in this changing context. As we have already discussed the technology life cycle of a product also changes with every phase of innovation in product and its delivery to consumers. These kinds of changes demand repositioning of the product offer in the changing situation. So repositioning is necessary. Repositioning will follow the same process like that of positioning with suitable modifications on the selection of competitive advantage in the new context.

Check Your Progress D

- 1) What do you mean by repositioning?
- 2) State whether the following statements are **True** or **False**.
 - i) Positioning is a product driven strategy.
 - ii) Product's position reflects important attributes which a consumer gives to the product.
 - iii) Brand tracking and monitoring helps in repositioning decisions.
 - iv) Repositioning will follow the same process like that of positioning.

- v) The decision of positioning is a strategic decision.

3.11 LET US SUM UP

A market consists of people who are willing to buy and have the purchasing power and authority to buy. Thus, a market is a set of all actual and potential buyers of a product. Therefore, each product or service is said to have a market of its own. Basically, markets may be divided into consumer markets and organisational markets. Organisational markets can be further classified as industrial markets, reseller markets, and government markets.

Within the market for a product, there may be submarkets that differ significantly from one another. Therefore, it is necessary to divide the market into homogeneous sub-markets in order to develop appropriate marketing strategies. The process of dividing the total market into one or more parts, each of which tends to be homogeneous in all significant aspects, is referred to as market segmentation. Due to certain limitations of the producer, he has to concentrate only on one or a few segments of the market. To make your promotional and selling efforts more effective, you may have to select the appropriate market segment and concentrate on that segment. Such a segment will become your target market.

There is no single way to segment the market. The commonly used bases for segmenting the consumer markets are geographic, demographic, psychographic and behaviouristic characteristics of the consumers. Similarly, the organisational markets can be segmented on the basis of customer type, size of customer and type of buying Situation. Whatever base you may select, the bases should be measurable, the data and segment should be accessible and the segment should be large enough to be profitable.

After segmenting the market the next step is to choose one or a number of strategies significant segments for launching your next offerings in the market. This will define the target market. After the target has been identified, the next task is to evaluate the target segments. There are five factors that should be considered while evaluating each segment. They are: segment size, worth while ness segment measurability, segment attractiveness, accessibility of the segment company objectives and resources. After this, the next-step is formulating market targeting strategies. There are broadly three categories viz., concentrated marketing, and undifferentiated marketing.

Once the company has decided its market targeting strategy, the next challenge is to position the product. It is very important to differentiate your product. The market is ever changing. Keeping this in mind a company needs to/prefers to reposition its brand in the market.

3.12 KEY WORDS

Brand Positioning: It involves implanting the brand's unique benefits and differences in customer's mind.

Competitive Advantage: An advantage over competitors gained by offering consumer's greater value, either through lower prices or by providing more benefits that justify higher price.

Concentrated Marketing: When company resources are limited and the competition is intense enough that the marketing manager has to stretch the market budget for market coverage, the companies follow a concentrated marketing strategy.

Consumer Market: It consists of all individuals and households who buy or acquire goods and services for non-business personal consumption.

Differentiated Marketing: When the marketers chose to target several segments or niches with a varied marketing offer to suit to each segment needs, it is called a Differentiated Marketing.

Government Market: It consists of governmental units which purchases goods and services for carrying out the main functions of government.

Industrial Market: It consists of all the individuals and organisations that buy or acquire goods and services for the productions of other products and services that are sold rented or supplied to others.

Markets: The set of actual and potential buyers of a product.

Market Segment: A segment of a market which is homogeneous in all significant aspects.

Market segmentations: The process of dividing the total market into one or more parts (sub-markets or segments) each of which tends to be homogeneous in all significant aspects.

Product Position: The way the product is defined by consumers on important attributes. It is the position in the perceptual space of the consumer's mind that the product takes in relation to competitor's products, which is often verbalized by customers on certain attributes.

Reseller Market: It consists of all individuals and organisations that acquire goods and services for the purposes of reselling or renting them to others at a profit.

Segmentation Evaluation Criteria: They are segment size and worth wholeness, segment measurability, segment attractiveness, accessibility of the segment, company objectives and resources.

Target Market: A target market is defined as a set of buyers sharing common needs or characteristics that the company decides to serve.

Undifferentiated Marketing: Marketers may go against the idea of a segmented market and decide to sale the product in the whole market. Here the marketing manager ignores the idea of segment characteristics differences and develop a marketing program for the whole market.

3.13 ANSWERS TO CHECK YOUR PROGRESS

- A) 4) Consumer markets i) reseller market iii) industrial market iv) industrial market v) government market vi) industrial market vii) consumer marker
- B) 4 i) False ii) True iii) False iv) True v) False
- D) 4 i) False ii) True iii) True iv) True v) True

3.14 TERMINAL QUESTIONS

- 1) What is a market? Briefly explain various types of markets.
- 2) Examine the characteristics of organisational markets.
- 3) Explain the buying process of organisational buyers.
- 4) What is market segmentation? Explain the importance of segmenting markets.
- 5) Examine the different bases for segmenting markets, particularly consumer markets.
- 6) "Consumer is always a rational human being. Hence, economic basis for segmentation is the most appropriate method". Do you agree? Give reasons.
- 7) Define market targeting and explain the procedure on how to target different markets.
- 8) How will you evaluate the potential of a target market?
- 9) Repositioning needs a continuous monitoring of the brand's performance in the market. Explain with suitable examples.

<p>Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the university for assessment. These are for your practice only.</p>
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UNIT 4 CONSUMER BEHAVIOUR

Structure

- 4.0 Objectives
- 4.1 Introduction
- 4.2 Meaning of Consumer Behaviour
- 4.3 Importance of Understanding Consumer Behaviour
- 4.4 Types of Consumers
- 4.5 Buyer Versus User
- 4.6 Factors influencing Consumer Behaviour
 - 4.6.1 Psychological Factors
 - 4.6.2 Personal Factors
 - 4.6.3 Social Factors
 - 4.6.4 Cultural Factors
- 4.7 Consumer Buying Process
- 4.8 Let Us Sum Up
- 4.9 Key Words
- 4.10 Answers to Check Your Progress
- 4.11 Terminal Questions

4.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the need to understand consumer behaviour;
- classify consumers;
- distinguish between the buyer and actual user; and
- describe the factors that influence consumer behaviour.

4.1 INTRODUCTION

As you know a market is the set of actual and potential buyers of a product and marketing refers to human activity directed at satisfying needs and wants through exchange process. This means that while marketing a product you aim at satisfying the needs and wants of actual and potential users of that product. To achieve this, it is essential to understand the tastes, preferences, likes, dislikes, consumption patterns, process of purchase, etc., of the buyers of that product. Thus, there is a need for you to study the consumer behaviour. In this unit, you will study the meaning and importance of

consumer behaviour, types of consumers, and factors influencing the consumer behaviour.

4.2 MEANING OF CONSUMER BEHAVIOUR

One thing that we have in common is that we are all consumers. In fact, everybody in this world is a consumer. Everyday of our lives, we are buying and consuming a variety of goods and services. However, we all have different tastes, likes and dislike, and adopt different behaviour patterns while making purchase decisions. You may prefer to use Colgate toothpaste, Cinthol toilet soap and Halo Shampoo whereas your spouse may prefer Neem toothpaste, Lux soap and Shikakai shampoo. Similarly, you may have a certain set of preferences in food, clothing, books, magazines, recreational activities, forms of savings and the stores from where you prefer to shop, which may be different not only from those of your spouse but also your friends, neighbours and colleagues. For example, take the case of two wheelers. You may prefer Activa, your friend may like Royal Enfield Bullet and another person may prefer Hero Honda. Similarly, take the case of smokers some people like cigars, some prefer beedies and others like cigarettes. Again within each category **also different persons prefer different brands**. Thus, each consumer is unique and this uniqueness is reflected in the consumption behaviour and pattern as well of process of purchase. **The study of consumer behaviour provides us with reasons why do consumers differ from one another in buying and using products and services.**

‘What’ products and services do we buy, ‘why’ do we buy, ‘how often’ do we buy from ‘where’ do we buy, ‘how’ do we buy, etc., are the issues which are dealt with in the area of consumer behaviour. **Consumer behaviour can be defined as those acts of individuals (consumers) directly involved in obtaining, using, and disposing of economic goods and services, including the decision processes that determine these acts.**

4.3 IMPORTANCE OF UNDERSTANDING CONSUMER BEHAVIOUR

Consumer behaviour is helpful in understanding the purchase behaviour and preferences of different consumers. As consumers, we differ in terms of our sex, age, education, occupation, income, family set-up, religion, nationality and social status. Because of these differences we have different needs, and we only buy those products and services which we think will satisfy our needs. In marketing terminology as you know, specific types or groups of consumers buying different products (or variation of the same basic product) represent different market segments. In order to market successfully to different market segments, the marketing manager needs appropriate marketing strategies. He can design this strategy only when he understands the factors which account for these differences in consumer behaviour and tastes.

In today's world of rapidly changing technology, consumer tastes are also changing rapidly. To survive in such a rapidly changing market, a firm has to constantly understand the latest consumer trends and tastes. Consumer behaviour provides invaluable clues and guidelines to marketers on new technological frontiers which they should explore. For example, let us consider the advancement in the technology of television in India. Consumers are switching from CRT TV to Smart Televisions. The consumers exhibit desire to purchase TV with higher resolution.

A management which believes in the philosophy of marketing concept must naturally proceed by identifying and understanding the prospective customers and their buying behaviour. To understand the potential consumers, means, to understand the consumer's goals which may be long-term or short-term in nature. Once the goals are identified, the company can decide as to how best its products can help the consumer to reach such goals. He/She can design the products accordingly, and carry on advertisement message explaining how the product can help the consumers to reach the goal. Many difficulties are to be anticipated in understanding the prospective consumers. First of all, people rarely ever give their goals any conscious thought nor express them in a clear-cut way. Even if a few goals are occasionally felt, they are rarely expressed in the order of importance. Again, the means selected to achieve proclaimed goals may or may not be rational. Many individuals frequently decide to satisfy small needs that confront them at a given moment of time. They do not pay much attention to their long-term goals of greater significance to their life in future. Most of such goals and means are changed quite often. Every person sets goals and seeks means of achieving them. However, no two persons have identical sets of ultimate or intermediary sets of goals. There can be only broad generalisations.

When target groups and their specific goals can be guessed with a fair accuracy, then an appropriate advertising message and medium can be selected. For example, when a bank desires to promote its fixed deposit business, the prospects are those whose long-term goals are peaceful, carefree retired life'. There may be many whose goals are different or who would give a low value to this goal. Hence, the advertising message of the bank, if carried through a newspaper or radio, may use the above theme. If, on the other hand, the medium is a trade journal the above goal (to attract fixed deposits) may not be achieved at all. One aspect to be considered here is; how to differentiate between the 'prospects' and 'poor prospectus' and the media to reach the prospects.

Psychology, sociology, cultural anthropology, and economics are among the areas that provide useful insights into consumer behaviour. Similarly, class and demographic methods of market segmentation, although still important need to be combined for a meaningful marketing analysis. Government and other distinctive groups constitute special markets that present unique

problems and opportunities. These markets must be analysed in depth if their potentials are to be capitalised.

Check Your Progress A

- 1) Based on your own experience as a consumer, furnish the following information:

Type of Product	For what purpose you buy the product?	Which brand you buy?	Where do you buy?
i) Tooth paste	_____	_____	_____
ii) Tea/Coffee	_____	_____	_____
iii) Newspaper	_____	_____	_____
iv) Washing Soap	_____	_____	_____
v) Ceiling Fan	_____	_____	_____
vi) Radio	_____	_____	_____

- 2) Ask one of your close friends or neighbour to furnish the information for the same.

Type of Product	For what purpose you buy the product?	Which brand you buy?	Where do you buy?
i) Tooth paste	_____	_____	_____
ii) Tea/Coffee	_____	_____	_____
iii) Newspaper	_____	_____	_____
iv) Washing Soap	_____	_____	_____
v) Ceiling Fan	_____	_____	_____
vi) Radio	_____	_____	_____

- 3) Compare your experience (Question 1) with the experience of your friend/neighbour (Question 2). Identify the differences, and state the reasons for the differences.

4.4 TYPES OF CONSUMERS

As you know, markets are broadly classified as consumer markets and organisational markets. In the same way all consumers also can be classified into two types: **personal consumers and organisational consumers**. When you buy a shirt for your own use, you are buying in your capacity as a personal consumer. However, when you are buying a computer for use in office, you are making the purchase in your capacity as an organisational consumer. Whenever you buy goods and services for your own or for your family use, you are treated as a personal consumer. All individuals, thus, fall in the category of personal consumers. All business firms, government agencies and bodies, non-business organisations such as hospitals, temples, trusts etc. are organisational consumers who purchase goods and services for running the organisations. As you know, in the case of an organisation also, buying decisions are taken by individuals only. Hence, the behaviour pattern of organisation consumers is marginally different from personal consumers. In this unit, however, our focus is on the personal consumer and factors influencing his/her behaviour.

4.5 BUYER VERSUS USER

The person who makes the actual purchase of a product or services is called the **buyer** and the person who consumes or uses the product or service is called **user**. Often the person who purchases the product is not the person who actually consumes or uses that product. A mother buys toys and clothes for consumption by her young children. The mother is the buyer but the actual consumers are the children. A car is purchased by the husband or the wife, but is used by all the members of the family. Thus, in the family context, you may either have the situation where the buyer is distinct from the consumer or the buyer is only one of the many consumers. Besides buyer and user, any person in the family or even from outside the family may influence the buying decision in the role of an initiator or influencer or decider. The **initiator** is the person who first suggests or gets the idea of buying the particular product or service. An **influencer** is a person whose views or advice carries some weight in making the final decision. The **decider** is the person who ultimately determines any part of or the entire buying decisions- whether to buy or not, how, to buy, when to buy, where to buy, etc.

The question that arises is who should be the subject of study in consumer behaviour? Should we study the buyer or the consumer or the other influencing persons? To overcome this problem, in many instances it is the household or the family and not the individual who is considered the subject of the study.

However, a person involved in marketing should have a very sharply defined focus for marketing strategy, especially promotional strategy. You must

identify the best prospect for your products---whether it is the buyer or the user. Even when the consumer is distinct from the buyer, the consumer's likes and dislikes, taste, etc., influence the buyer's decision in the purchase of a specific product or brand. Thus, many companies focus their promotion at both the user and the buyer. Consider the promotional message of Maggi noodles and Rasna soft drink concentrate. The taste and fun aspects of both these products are meant to appeal to the children who are the major consumers, while the convenience (in case of noodles) and economy (in case of Rasna) are meant to appeal to the mothers who are the buyers.

Check Your Progress B

- 1) Mr. Sharat, an engineering student, asked his father, Mr. Kailash, to buy for him a calculator, Mr. Kailash asked his friend, Mr. Ramesh, to suggest a suitable brand and Mr. Ramesh told him to buy Casio FX991ES PLUS model. Accordingly, Mr. Kailash bought the calculator and gave it to his son. Identify the following in this case:
 - a) Buyer
 - b) User.....
 - c) Initiator.....
 - d) Influencer
 - e) Decider
- 2) Who are likely to be the buyers and users of the following products within your family and your friend's family:

Product	Your Family		Your Friend's Family	
	Buyer	User	Buyer	User
Fruits				
Razor Blades				
TV Set				
Cooking Oil				
Chairs Toys				

If you find differences between your family and your friends' family in the above, identify the reasons.

4.6 FACTORS INFLUENCING CONSUMER BEHAVIOUR

Consumer behaviour is affected by a host of variables, ranging from personal motivations (needs, attitudes and values), personality characteristics, socio-economic and cultural background (age, sex, professional status) to social influences of various kinds exerted by family, friends, colleagues and society

as a whole. The combinations of these various factors produce a different impact on each of us as manifested in our different behaviour as consumers.

Consumer behaviour results from individual and environmental influences. Consumers often purchase goods and services to achieve their ideal self-image and to project the self-image they want others to accept. Behaviour is, therefore, determined by the individual's psychological makeup and the influences of others. In other words, consumer behaviour is a function of the interaction of consumers' personal influences and the pressures exerted upon them by outside forces in the environment. Understanding consumer behaviour requires an understanding of the nature of these influences.

The basic determinants of consumer behaviour include the individual motives, perceptions and attitudes. The interaction of these factors with influences from the environmental factors causes the consumer to act. All the factors that influence the consumer behaviour can be classified into four broad groups: 1) Psychological factors, 2) personal factors, 3) social factors, and 4) cultural factor. Look at Figure 4.1 carefully and study the factors grouped in each of these four categories

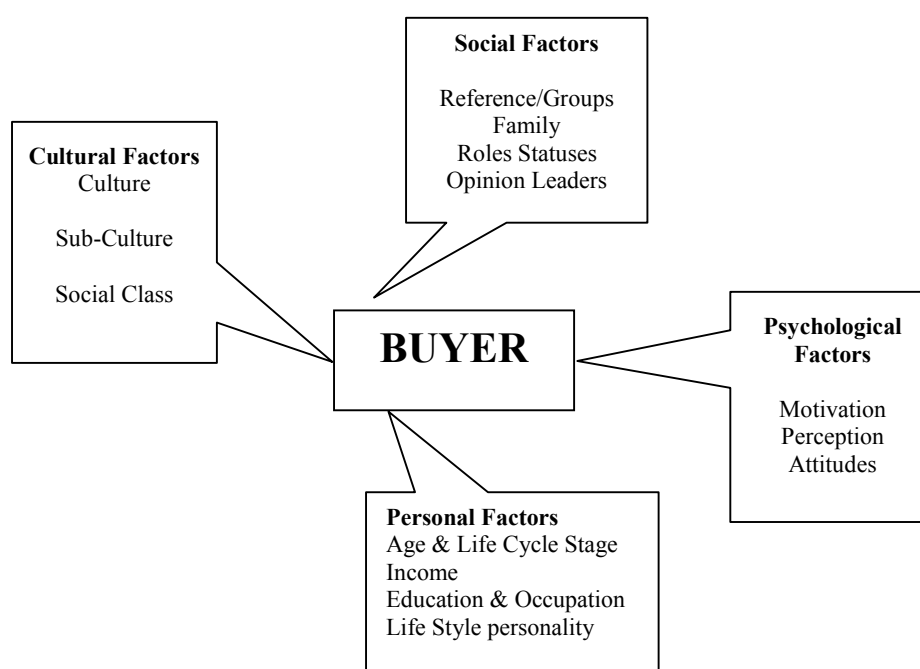


Figure 4.1 Factors influencing Consumer Behaviour

4.6.1 Psychological Factors

The starting point in the purchase decision process is the recognition of a felt need. A need is simply the lack of something useful. We all have needs and we consume different goods and services with the expectation that they will help to fulfil these needs. When a need is sufficiently pressing, it directs the person to seek its satisfaction. It is known **as motive. Thus, motives are inner states that direct people towards the goal of satisfying a felt need.**

The individual is moved the root word for motive to take action to reduce a state of tension and to return to a condition of equilibrium.

Although psychologists do not agree on any specific classification of needs, a useful theory of the hierarchy of needs has been developed by Abraham Maslow. His list is based on two important assumptions.

- 1) People are wanting animals whose needs depend on what they already possess. A satisfied need is not a motivator. Only those needs that have not been satisfied can influence behaviour.
- 2) All needs can be ranked in order of importance from the low biological needs to the higher level psychological needs. Each level of unfulfilled need motivates the individual's behaviour, and as each successive level of need is fulfilled, people keep moving on to the next higher level of need.

As shown in Figure 4.2, Maslow has classified the needs into five categories as: 1) Physiological needs, 2) Safety needs, 3) Social needs, 4) Esteem needs, and 5) Self actualisation needs. In the figure the different levels of needs have been depicted as being water tight compartments, but in reality there is always overlap amongst the different levels of needs, since no need is ever totally satisfied. There is always scope for further fulfilment.

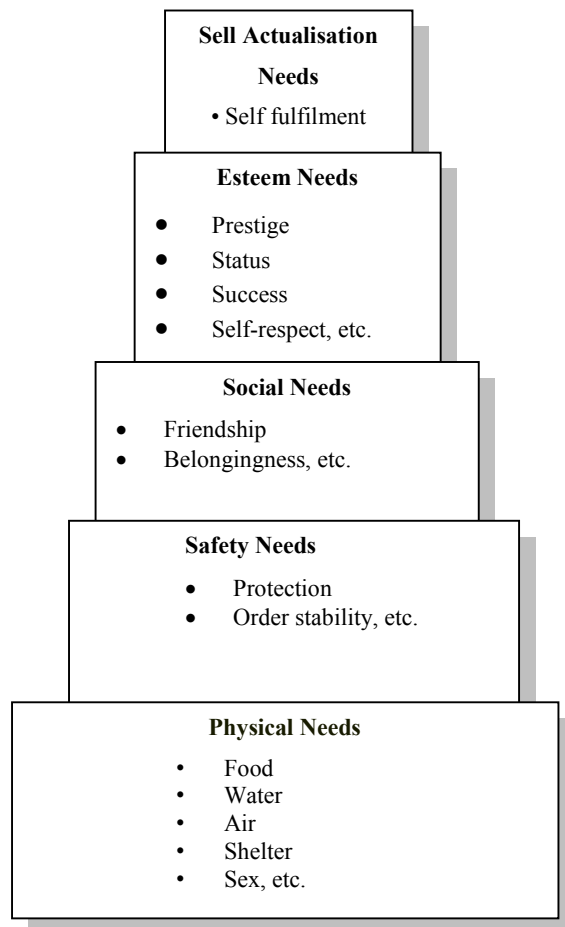


Figure 4.2 : Maslow's Hierarchy of Needs

Physiological Needs: The primary needs for food, shelter and clothing that are present in all humans and must be satisfied before the individual can consider other higher-order needs. A hungry person ignores other needs until he obtains food to satisfy his hunger. Once the physiological needs are satisfied, at least partially, other needs enter the picture.

Safety Needs: The safety needs include: security, protection from physical harm and avoidance of the unexpected unfavourable happenings. Gratification of these needs may take the form of a savings account, life insurance, the purchase of radial tires, or membership in a local health club.

Social Needs: Satisfaction of physiological and safety needs leads to the third level needs which are called social needs. These needs arise due to the desire to be accepted by members of the family and other individuals and groups. The individual may be motivated to join various groups to conform to their standards of dress and behaviour, and to become interested in obtaining status as means of fulfilling these needs.

Esteem Needs: These needs, which are near the top of the ladder, are more difficult to satisfy. At the esteem level is the need to feel a sense of accomplishment, achievement, and to receive respect from others. The competitive needs to excel to better the performance of others is in almost universal human trait. The esteem need is closely related to social needs. At this level, however, the individual desires not just acceptance but also recognition and respect. The person has a desire to stand out from the crowd in some way.

Self-actualisation Needs: The top position on the ladder of human needs is self-actualisation--the need for fulfilment, for realising one's own potential, for using one's talents and capabilities totally. Maslow defines self-actualisation this way: "**The healthy man is primarily motivated by his needs to develop and actualise his fullest potentialities and capacities. What man can be, he must be.**" **Individual behaviour resulting from motivation is affected by how are stimuli perceived.**

Perception is the meaning that each person attributes to incoming stimuli received through the five senses. To perceive is to see or hear, or touch or taste or smell something or event or idea. Perception is much more complex and broader than sensation. It is the process of the mind selecting, organising and interpreting the reality. Several factors influence one's perception. Perception may or may not be corresponding with the reality. What people perceive is as much a result of what they want to perceive as of what is actually there. Perception of incoming stimuli is greatly affected by attitudes about them. In fact, the decision to purchase a product is based on currently held attitudes about the product, the store, or the salesperson.

Attitudes are a person's enduring favourable or unfavourable evaluations, emotional feelings, pro or against action tendencies in regard to some object or idea. They are formed over a period of time through individual experiences

and group contacts, and are highly resistant to change. Since favourable attitudes are likely to be conducive to brand preferences, marketers are interested in determining consumer attitudes towards their products.

4.6.2 Personal Factors

A consumer's purchase decisions are also affected by his personal characteristics such as age, sex, stage in family life-cycle, education, occupation, income, lifestyle, his overall personality and overall self-concept. We shall now discuss some of these influences.

Demographic Factors and Life-cycle Stage: The first factor influencing a buyer's decision is his age. The need for different products and services changes with age. Babies and children have special needs for products such as milk powder, baby foods and toys. Young adults need clothes, recreational and educational facilities, transportation and a host of other age and fashion related consumption needs.

There are certain physiological differences between men and women which result in their having different consumption needs. Women need specialised medical facilities for pregnancy and delivery. Their requirement of clothes and cosmetics is different from that of men. Each gender thus has its own need for specific products and services.

Education and Occupation: Education widens a person's horizons, refines his tastes and makes his outlook more cosmopolitan. An educated person is more likely to consume educational facilities, books, magazines and other knowledge oriented products and services. In India, for example, we find that educated families are more inclined towards adopting family planning than families which have not educational background.

The occupation in which a person is engaged also shapes the consumption needs. People following specialised occupations such as photography, music, dance, carpentry, etc., need special tools and equipment. Apart from this specific need, the status and role of person within an organisation affects his consumption behaviour. Chief executives would buy three-piece suits of the best fabric, hand made leather briefcase and use services of airlines and five star hotels. A junior manager or blue collar worker in the same organisation may also buy a three-piece suit but he may compromise on price.

Income: The income of a person has an extremely important influence on his consumption behaviour. He may wish to buy certain goods and services but his income may become a constraint. Income in this context really refers to the income available for spending (i.e., income after tax, provident fund and other statutory deductions). The person's attitude towards spending versus saving and his borrowing power are also important influencing factors. Small size packaging in sachets for products such as tea, shampoo, toothpaste, etc., are meant for the lower income customers who cannot afford a one time large outlay of money on such products.

Personality: Personality is the sum total of an individual's psychological traits, characteristics, motives, habits, attitudes, beliefs and outlook. Personality is the very essence of individual differences. In consumer behaviour, personality is defined as those inner psychological characteristics that both determine and reflect how does a person respond to his environmental stimuli.

There has been a great deal of research into the concept of personality with the objective of predicting consumer behaviour, in terms of product and brand choice. The assumption in all personality related research has been that different types of personalities can be classified and each type responds differently to the same stimuli. The personality classification can be used to identify and predict that response. In case of products such as cigarettes, beer and cars, personality has been used to segment the market.

Life Style: Life styles are defined as patterns in which people live, as expressed by the manner in which they spend money and time on various activities and interests. Life style is a function of our motivations, learning, attitudes, beliefs and opinion, social class, demographic factors, personality, etc. While reading this unit, you are playing the role of a student. At the same time you also have your career, family and social roles to play. The manner in which you blend these different roles reflects your life style.

The different life styles are used for market segmentation, product positioning and for developing promotion campaigns, including new products.

Check Your Progress C

- 1) List the major factors which determine the consumer behaviour.
- 2) Differentiate between need and motive.
- 3) What are the basic assumptions in Maslow's hierarchy of needs?
- 4) Match the products in Column A with factors in Column B

Column A	Column B
i) Cameras	a) Sex
ii) Toys	b) Physiological need
iii) Suiting Cloth	c) Professional
iv) Vegetables	d) Age
v) Lipstick	e) Personality

4.6.3 Social Factors

Consumer behaviour is also influenced by social factors such as reference groups family, social roles, social status and opinion leaders

Reference Groups: As a consumer, your decision to purchase and services, is influenced by the people around you with whom you interact and the various social groups to which you belong. The groups with whom you interact directly or indirectly influence your purchase decisions.

There may be indirect reference groups. Indirect reference groups comprise those individuals or groups whom an individual does not have any direct face-to-face contact such as film stars, TV stars, sportsmen, politicians, etc. For example, celebrities (like film stars and sports heroes are well known people in their specific field of activity) who are admired and their fans aspire to emulate their behaviour. Soft drinks, saving cream, toilet soaps, textiles are advertised using celebrities from the sports and film fields. Hidden in this appeal is subtle inducement to the customer to identify himself with user of the product in question.

Family: The family is the most important of all reference groups and we shall discuss it in detail. The family, as a unit, is an important consumer for many products which are purchased for consumption by all family members. It is a source of major influence on the individual member's buying behaviour. It is from parents that we imbibe most of our values, attitudes, beliefs and purchase behaviour patterns. Long after an individual has ceased to live with his parents, their influence on the sub-conscious mind still continues to be great. In our country, where children continue to live with their parents even after attaining adulthood, the parents' influence is extremely important. Within the family, different members play different roles. Marketers are interested in finding out exactly the role played by individual members so that they can appropriately design their promotion strategy to suit these differing roles.

Roles: An individual may participate in many groups. His position within each group can be defined in terms of the activities he is expected to perform. You are probably a manager, and when you are in a work situation you play that role. However, at home you play the role of spouse and parent. Thus in different social positions you play different roles. Each of these roles influences your purchase decisions. As a manager, you would like to buy clothes which reflect your status within the organisation, such as safari suit, three piece suit, tie, leather shoes, etc. You are in a relaxed and informal situation at home, hence, you would prefer clothes which are comfortable rather than formal and you may wear shirts, jeans, kurta pyjama, dhoti or lungi.

Status: Each role that a person plays has status, which is the relative prestige accorded by society. Status is often measured by the degree of influence an individual exerts on the behaviour and attitude of others. People buy and use products which reflect their status. The managing director of a company, for instance, may drive a Mercedes to communicate his status in society. He may go to Europe or USA for a holiday, rather than going to Mussoorie or Ooty.

Opinion Leaders: A consumer is also influenced by the advice he receives from his friends, neighbours, relatives and colleagues about what products and services they should buy. **This process of influencing is known as the opinion leadership process and is described as process by which one person (the opinion leader) informally influence the actions or attitude of other (opinion receivers).** For instance, during lunch hour you may casually ask your colleague to recommend a good motor-bike mechanic. Or you discuss with your relatives and neighbours what brand of TV they possess and try to ascertain which is the brand recommended by most, before purchasing a TV for your home. Similarly, many people seek the advice or opinion leaders in case of specific products. **People who have acquired considerable knowledge and experience in a particular field are thought of as opinion leaders in that area.** Advertisers and marketers are concerned with reaching the opinion leaders and ensuring that they receive the intended information which they can, in turn, pass on to opinion receivers.

4.6.4 Cultural Factors

Consumer behaviour is also being strongly influenced by the cultural factors. Marketers normally study three cultural factors: 1) buyer's culture, 2) sub-culture, and 3) social class. Let us study these factors briefly.

Culture: The study of culture encompasses all aspects of a society such as its religion, knowledge, language, laws, customs, traditions, music, art, technology, work patterns, products, etc. All these factors make up the unique, distinctive, personality, of each society. For our purpose of studying consumer behaviour, **culture can be defined as the sum total of learned beliefs, values and customs which serve to guide and direct the consumer behaviour of all members of that society.**

The kind of products and advertising appeals that can work effectively in a society depend largely on its cultural background. In the American society, individualism, freedom, achievement, success, material comfort, efficiency and practicality are values which are followed and imbibed by the younger children. Products and services which fulfil these values are most successfully marketed in America. In the Indian society, on the contrary, conformity, spiritualism, respect for the elderly, traditionalism and education are some of the dominant cultural values. However, our Society is undergoing a cultural change and you can notice some major cultural shifts which have far reaching consequences for the introduction of a vast variety of new products and services.

Sub-culture: Within the large framework of a society, there exist many sub-cultures. **A sub-culture is an identifiable distinct, cultural group, which, while following the dominant cultural values of the overall society also has its own beliefs, values and customs that set it apart from other members of the same society.** Every member of a society is a member of several subgroups and the consumer's purchase decision is a result of the

member of these various subgroups. The marketer must understand how the specific sub cultural groups interact with each other and exert their influence on the member's consumption behaviour.

These sub cultures offer readymade market segments to the marketer who can position his product to meet the specific needs of each sub-culture.

Social Class: In every society there is inequality in social status amongst different people. So the people are categorised into different social classes. **Social classes can be defined as relatively permanent and homogeneous divisions in a society in which individual or families sharing similar values, life-styles, interacts.** Social classes are usually ranked in a hierarchical order ranging from low statues to high status. If we compare different social classes, we would find difference, in values, attitudes and behaviour between each class, as also a pattern of consumptions behaviour unique to each class. Study Table 4.1 carefully and analyse how are the buying behaviour patterns different for various social classes.

Table 4.1: Major social classes and the dominant characteristics and buying behaviour patterns

Social Class	Distinguishing Characteristics	Dominant consumption patterns
Upper Upper	Elite of society: aristocrats of top industrialist inherited wealth well-known family background: spend money lavishly but in discreet, conservative taste.	Spend on property. homes, best education for children, frequent foreign vacation, antiques jewellery, custom made cars etc.
Lower Upper	Top professionals or business man; who have earned rather than inherited money, style and taste in conspicuous and flamboyant they seek possessions which will reflect their status.	Spend on large home with flashy and expensive decor, best education for children, imported cars and latest household gadgets, 5-star hotels, personal computers etc.
Upper Middle	Professional Careerist', coming from the middle class with basically middle class values of respectable living conformity: emphasis on good education; Style is gracious and careful.	Spend on buying quality products irrespective of the category of product it is quality which is the most important feature, Smart TV, play station, high end cars, iphone are some of the products associated with this class.

Lower Middle	White collar workers such as office workers, small businessmen and traders; value neatness and cleanliness and want their home and possessions to reflect this.	Spends a great deal of time shopping around for the best bargain; they buy refrigerator, Smart TV. motorcycle etc.
Upper Lower	Poorly educated, semi-skilled factory workers; they comprise the largest social class segment. That major motivation is security. Purchase decision often impulsive but exhibits a high degree of brand loyalty.	Smart phones, LCD TV. Coolers etc are bought but largely on hire purchase basis, if available.
Lower Lower	Often uneducated, at the bottom of the society and working as unskilled labour live from day to day basis with little planning for the future.	Buy only the basic necessities of life usually buy loose and unbranded products. Have no comprehension and value of brands.

4.7 CONSUMER BUYING PROCESS

In making a purchase decision, the consumer goes through the following five decisions :

- 1) **Problem Recognition:** The buying process starts with the buyer recognising a need or problem. For example, Mr. Rao feels very uncomfortable carrying his papers, files and lunch packet in his hand or in a plastic bag to his work place. Mr. Rao feels the need for a briefcase to carry papers to and from his office.
- 2) **Pre-Purchase Information Search:** After identifying the need for a briefcase Mr. Rao starts searching for information on the kinds of briefcases available in the market. Mr. Rao can seek information from three sources: 1) personal source (family, friends, colleagues, neighbours), 2) commercial sources (advertisements, retailers, salesmen), and 3) public sources (seeing other, consumer information centres). By the end of this stage, Mr. Rao has gathered enough information about different kinds of briefcases available and narrowed down his alternatives to moulded plastic, branded briefcases. Within this broad range there are various brands and price ranges from which to make the final choice from.
- 3) **Evaluation of Alternatives:** Mr. Rao will make his final decision using certain evaluation criteria. The most commonly used criteria are: i)

product attribute, ii) the relative importance of each attribute to the consumer, iii) brand image, and iv) attitudes towards the different brands or alternatives under consideration. For instance, the product attributes of the moulded plastic briefcases are: unbreakable, lightweight, spaciousness, reliability of locking system, colour and price. Mr. Rao attaches maximum importance to the product attributes of light weight and spaciousness as compared to other attributes. He already has some kind of attitude towards the various brands, developed in the stage of information search, which will affect his final decision.

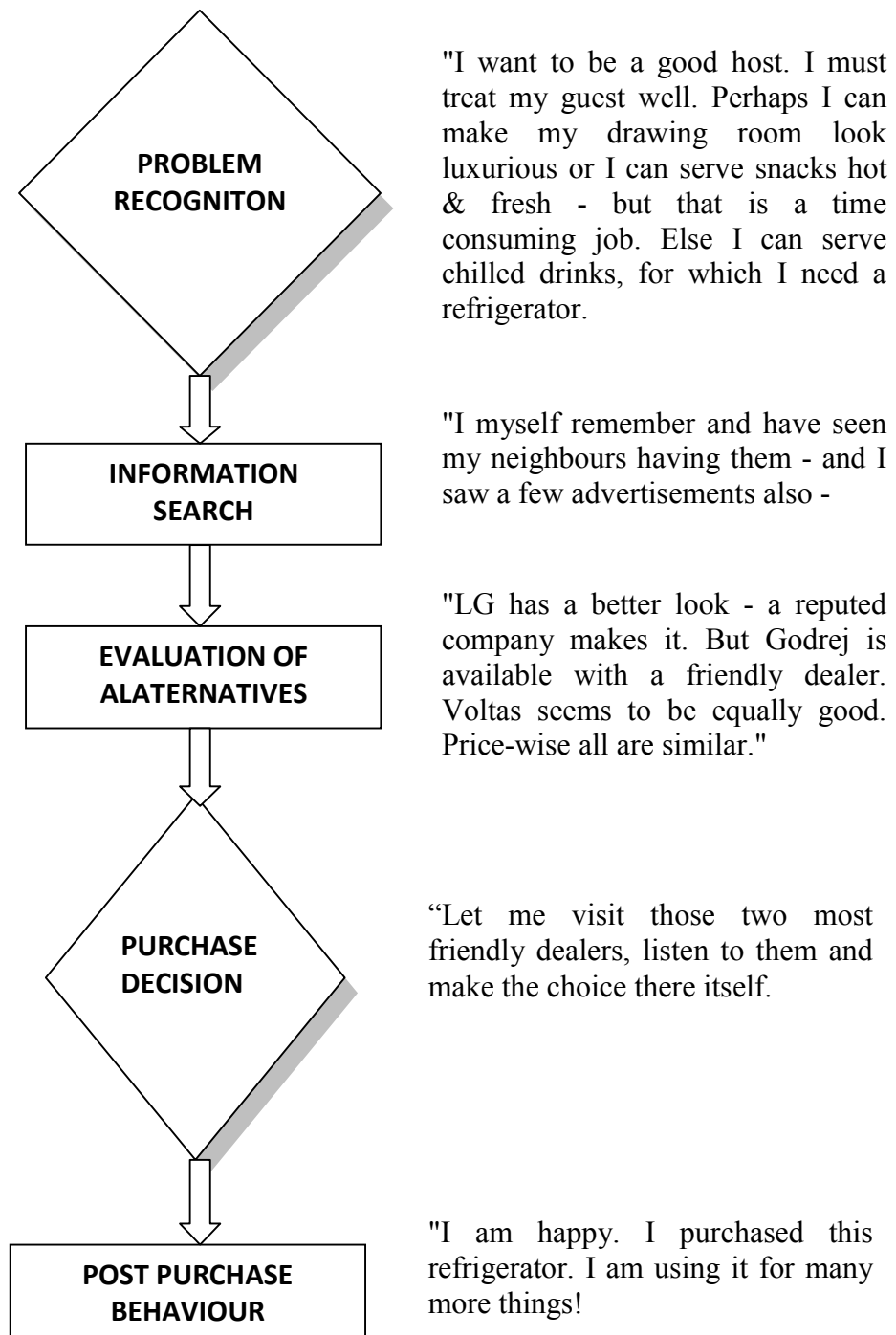


Figure 4.3: Stages in a Buying Process

- 4) **Purchase Decision:** In the evaluation stage, Mr. Rao has ranked the various brands in terms of his first, second and third preference. In short, he has made up his mind about which brand he wants to buy. However, Mr. Rao may finally end up buying a brand which is not his most preferred. For instance, when Mr. Rao goes to the shop to make his purchase, the shopkeeper's negative remarks about his (Mr. Rao's) most preferred brand may make him change his mind.
- 5) **Post Purchase Behaviour:** After purchasing the briefcase, if Mr. Rao finds that its performance or utility matches up to his expectations, he will feel satisfied with his purchase. The satisfaction will reinforce his perceived favourable image of the brand, which is likely to be extended to the entire range of products manufactured by the Company and also he may strongly recommend the brand when his friends ask his advice. Mr. Rao may do the opposite, if he feels that the briefcase which he has purchased is not upto his expectation. Thus, customer satisfaction/dissatisfaction has a powerful influence on potential customers

All the above stages in the buying process are presented in Figure 4.3 However, In case of routine purchases, the consumer may skip the second and third stages and straight away go to the stage of purchase decision. In case of purchase decision involving extensive problem solving, the consumer is likely to go through all the five stages in the specified sequence. The important point to note is that the buying process starts much before the actual purchase and has implications even after the purchase has been made. This should give ideas to the marketer as to how he/she to start designing his marketing strategy in order to achieve the specified marketing objectives.

Check Your Progress D

- 1) List the major steps in the consumer buying process.
- 2) State the difference in the buying process of washing machine and washing.
- 3) Take a magazine and identify five advertisements for different consumer goods. Study the advertising appeal in each advertisement and identify which product is supposed to satisfy which need (according to Maslow's hierarchy of needs):
 - i)
 - ii)
 - iii)
 - iv)
- 4) Take a magazine and select five advertisements where celebrities are used in the advertisement messages and identify the following:

Product	Name of Celebrity	Reference Group

4.8 LET US SUM UP

Consumer behaviour is the study of why, how, what, when, where, and how often do consumer buy and consume different products and services. Knowledge of consumer behaviour is helpful to the marketer in understanding the needs of different consumer segments and developing appropriate marketing strategies for each segment. The study of consumer behaviour also provides an insight into how consumers arrive at the purchase decision and the factors which influences their decision. Once the influencing variables have been identified, the marketer can manipulate them so as to induce in his consumers a positive purchase decision.

Consumers can be classified into two categories: 1) personal consumer, and 2) organisational consumers. All the individuals and households who buy or procure goods or services for their non-business personal consumption are called personal consumers. All individuals or organisations who buy or procure goods or services for further production or re-sale for profit or for the maintenance are called organisational consumers. Organisational consumers are comprised of industrial undertakings, re-sellers and government.

Often the person who buys the product is not the person, who actually uses it. Besides, buyer, user, or any person, can influence the buying decision in the capacity of an initiator or influencer or decider. Now the question is: who should be the subject of focus for the marketer. To overcome this problem, in many cases, it is the household or the family and not the individual who is considered the subject of focus. However, a marketer should have a very sharply defined focus for an effective marketing strategy.

Consumer's decision to purchase a product is influenced by a host of factors. All the factors that influence the consumer behaviour may be broadly classified into four groups: 1) psychological factors (motives, perceptions, attitudes), 2) personal factors (age and life cycle stage, occupation, income, life style, personality), 3) social factors (reference groups, family, roles, status), and 4) cultural factors (culture, sub-culture, social class).

In making a purchase decision, the consumer goes through five stages: 1) problem recognition, 2) pre-purchase information search, 3) evaluation of alternatives,

4) Purchase decision, and 5) post purchase behaviour. However, in case of routine purchases, the consumer may skip the second and third stages and straight away go to the stage of purchase decision.

4.9 KEY WORDS

Buyer: The Person who makes the actual purchase of a product or service.

Consumer Behaviour: Those acts of the individuals (consumers) directly involved in obtaining, using, and decision-making process, including the decision-making process that proceeds and determine these acts.

Culture: The set of basic values, perceptions, wants and behaviours learned by a member of society from family and other important institutions.

Decider: The person who ultimately determines any part of or the entire buying decision.

Influencer: The person whose views or advice carries some weightage in making a buying decision of a product or service.

Initiator: The person who first suggests or gets the idea of buying the particular product or service.

Life Style: An individual's pattern of living in the world as expressed by the manner in which he spends money and time on various activities and interests, and the opinions that he holds.

Motive: Strong, unfulfilled need which spurs a person to take action for his satisfaction,

Opinion Lender: The member of a reference group who is the information source and who influences the actions or attitudes of others in the group in buying a product or service.

Organisational Consumer: All the individuals and institutions who buy or acquire goods and services for their business or official/ organisational consumption.

Personal Consumer: All the individuals and households who buy or acquire goods and services for their non-business personal or domestic consumption.

Reference Group: A group that serves as a point of reference or comparison for an individual in the matter of forming value, attitude or behaviour.

Role: The activities a person is expected to perform according to his job status and other social functions and responsibilities

Social Class: Division in a society comprising people sharing same social status. values, beliefs, attitudes, and exhibiting a distinct preference for certain products and brands.

Status: The general esteem given to a role by society.

User: The person who consumes or uses a product or service.

4.10 ANSWERS TO CHECK YOUR PROGRESS

- B 1. a) Kailash, b) Sharat c) Sharat d) Ramesh e) Kailash
C 4. i) c ii) d iii) e iv) b v) a

4.11 TERMINAL QUESTIONS

- 1) What do you mean by consumer behaviour? Explain the importance of understanding consumer behaviour?
- 2) How are human needs classified and how is it helpful for a marketer?
- 3) How is the distinction between buyer and user meaningful to a marketer?
- 4) Explain various factors which influence the consumer behaviours?
- 5) What is culture? Discuss the role of culture in influencing consumer behaviour?
- 6) Describe the stages in consumer purchase decision.
- 7) You felt the need for colour TV at your house. Explain the detailed process of buying the TV.

Note: The questions will help you to understand the unit better. Try to write answers them. But do not submit your answers to the University for assessment. These are to practice only.

SOME USEFUL BOOKS

Indira Gandhi National Open University, School of Management Studies. 1989, *Marketing for Managers MS-6*, Indira Gandhi National Open University New Delhi (Units 1, 2, 4, 5, 8-10 & 20).

Kotler, Philip., Gary Armstrong. 1987, *Marketing-An Introduction*, Prentice Hall : Englewood Cliffs. (Chapters 1,2,5-8)

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Sherekar S.A., 1984, *Marketing Management*, Himalaya Publishing : New Delhi. Sherlekar, (Chapters 1-5)

Santon, William,J., and Charles Futrell. 1987, *Fundamentals of Marketing*, Graw-Hill : New York. (Chapters 1,2,6-8)

Block

2

PRODUCT

UNIT 5

Product Concepts and Classification

UNIT 6

New Product Development and Product Life Cycle

UNIT 7

Branding and Packaging

UNIT 5 PRODUCT CONCEPTS AND CLASSIFICATION

Structure

- 5.0 Objectives
- 5.1 Introduction
- 5.2 Meaning of Product
- 5.3 Product Mix and Product Line
- 5.4 Product Mix and Product Line Strategies
- 5.5 Classification of Products
 - 5.5.1 Consumer Goods
 - 5.5.2 Industrial Goods
 - 5.5.3 Durable Goods and Non-durable Goods
 - 5.5.4 Services
- 5.6 Product Diversification
 - 5.6.1 Related Diversification
 - 5.6.2 Unrelated Diversification
 - 5.6.3 Advantages of Diversification
- 5.7 Let Us Sum Up
- 5.8 Key Words
- 5.9 Answers to Check Your Progress
- 5.10 Terminal Questions

5.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning of product and its essential attributes;
- distinguish between various types of products;
- describe the terms 'product mix' and 'product line' and explain product line related strategies; and
- discuss the concept of product diversification and related strategies.

5.1 INTRODUCTION

In the previous four units you have learnt the basic concepts of marketing, i.e., nature and scope of marketing, marketing environment, and markets and market segmentation. When a marketer starts his operation, he has to content with certain environmental forces that tend to influence his activities. To

match such forces, keeping organisational strengths and limitations in mind, he develops an overall marketing programme called marketing mix. The marketing mix is composed of four elements viz., product mix, pricing mix, place mix and promotion mix. It is also referred to as four 'Ps' of the marketing mix. In this unit you will study the first element of the marketing mix, i.e., **the product**. You will study the meaning and essential attributes of a product, types of products, product mix and product line, related strategies, and the concept of product diversification and related strategies.

5.2 MEANING OF PRODUCT

We take steel sheet, nuts and bolts, a motor, paint, and other accessories, process them in a given manner and our effort may result in the form of a washing machine. However, when the consumer buys the machine, it is not simply the machine that emerged out of the efforts and things that went into it. The consumer buys it because he has a specific want (i.e., something to aid in washing clothes) and the consumer is exploring a way to satisfy that want. He looks for an accepted brand name, a warranty, an assured after-sales service, some appealing physical features and an impressive colour. Thus, marketers should recognise that people are not simply interested in buying the physical features of the product, but they buy to satisfy their wants. For that matter some products which people buy do not have physical feature at all. Take for instance an income-tax consultant. He sells his advice which does not have any physical features. It means, apart from physical products, we must also include services within the scope of our discussion.

Thus, a product may be defined in a narrow as well as broad sense. In a narrow sense, it is a set of tangible physical and chemical attributes in an identifiable and readily recognisable form. In a broader sense we may look at it in the form of an object, idea, service, person, place, activity, goods, or an organisation. It can even be a combination of some of these factors.

Let us study how 'product' is being defined by various people. According to Philip Kotler, *a product is anything that can be offered to a market for attention, acquisition, use or consumption, it includes physical objects, service, personalities, place, organisation and ideas.*

Jay Diamond and Gerald Pintel states that *the total product, in addition to the physical, product, includes guarantees, installation, instructions for use, packaging, branding and the availability of service. The total product is what the customer buys, and frequently the fringe characteristics such as guarantees and servicing are as important as the physical product itself.*

William J. Stanton defined the term 'product' as *a set of tangible and intangible attributes including packaging, colour, price, manufacturer's prestige, retailer's prestige and manufacturer's and retailer's services which buyer may accept as offering, satisfaction of wants or needs.*

As defined by Jerome McCarthy, *a product is more than just a physical product with its related functional and aesthetic features. It includes accessories, installation, instructions on use, the package, perhaps a brand name, which fulfils some psychological needs and the assurance that service facilities will be available to meet the customer's needs after the purchase.*

According to W. Alderson, *a product is a bundle of utilities consisting of various product features and accompanying services.*

Schwartz defined a product as *something a firm markets that will satisfy a personal want or fill a business or commercial need; and includes, all the peripheral factors that may contribute to consumer's satisfaction.*

From the above definitions it can be concluded safely that the word product, in the context of marketing, has a much wider connotation. It is applicable to any offering to a market for possible purchase or use. It encompasses physical objects (i.e., a television), services (e.g., airlines), places (e.g., tourist resorts), organisations (e.g. red cross), persons (e.g., an athlete) and ideas (e.g., flood relief aid). It also includes supporting services e.g., design, brand, package, label, price, etc. **To sum up a product is a combination of physical, economic, social and psychological benefits.**

Essential Attributes of a Product

Based on the above definitions, we can list out the essential characteristics of a product as follows:

- 1) **Tangible or Intangible:** It may be capable of being touched, seen and presence felt. For example, products like a comb, refrigerator and motor cycle are tangible. At the same time, a product need not necessarily be tangible. It can be intangible but capable of providing a service. For instance, repairing, hair-dressing, insurance, etc., are intangible but provide satisfaction to the customers.
- 2) **Associated Attributes:** A product consists of various product features and accompanying services. Thus, a product is comprised of attributes including colour, package, brand name, accessories, installation, instructions to use, manufacturer's prestige, retailer's prestige, after sale service, etc. These attributes differentiate the products from each other.
- 3) **Exchange Value:** A product must be capable of being exchanged between a buyer and a seller at a mutually acceptable cost.
- 4) **Satisfaction:** It should be capable of providing satisfaction to the buyer, both real and psychological. As far as the seller is concerned, it should provide the much needed business profit.

Check Your Progress A

- 1) What is a product?
- 2) State whether the following statement are **True** or **False**.
 - i) A product is always tangible.
 - ii) A product provides satisfaction to the customer.
 - iii) A product cannot be identified
 - iv) Every product has exchange value.
 - v) Product does not include supporting services.

5.3 PRODUCT MIX AND PRODUCT LINE

A firm may be selling a single product or a wide range of products. For instance, Godrej Company manufactures a variety of products like office furniture (tables, chairs, steel almirahs) office equipment (typewriters), cosmetics (toilet soap), domestic appliances (refrigerators), etc. While referring to the range of products manufactured or sold by a firm, marketers use two concepts very extensively. Those concepts are 1) product line, 2) product mix. Let us discuss these terms in detail:

Product Line: A product line is an expression generally used to describe a group of closely related products. A group of products may be referred to as a product line either because they cater to the needs of a particular group of buyers, or they function in similar manner or they are sold through identical marketing facilities or fall within the same price range. The crux of the situation is that such reasoning may be consistently used for referring to a product group as a product line. A seller may identify a number of product lines to be offered to buyers by keeping in view the buyer's considerations, economy of production, distribution, etc.

Product Mix: The expression product mix refers to all the products offered by a particular seller. **Product mix has three components, viz., breadth, depth and consistency.** The **breadth** (or width) of the product mix indicates as to how many product lines are offered by a seller. For example, Bajaj Electrical offers a variety of electrical appliances such as fans, mixers, lamps, gysers, etc. The term **depth** refers to the assortment of sizes, colours, and models offered within each product line. For example, Palmolive Soap is offered in three different types to cater to different types of skin of the consumers. **Consistency** means the closeness of the product lines in end-use, production requirements, distribution channels, etc.

*A **product item** can be defined as a specific version of a product that has a separate brand name or designation in the seller's list.*

Let us understand these three terms 'product line', 'product mix' and 'product items' through an illustration. Delhi Cloth and General Mills Limited deals in

product lines like vanaspati, sugar, chemicals, calculators, fertilisers and readymade garments. All these Product lines taken together are the company's product mix. However, double bull shirts is its product item.

Look at Figure 5.1 for a diagrammatic illustration of the concepts of product mix and product line.

Figure 5.1 shows that there are five product lines. Here the **width of the product mix** is five product lines. The **length of the product line** refers to the total number product items offered in a product line. For instance, the first product line has the length of five product items and third product line has the length of only one product item. **The length of the product mix** refers to the total number of product items offered by the company. In this illustration the length of the product mix is 15. We can also calculate the **average length of product line** by dividing the length of product mix (here 15) by the number of product line (here 5). In this case average length of product line is three ($15 \div 5$).

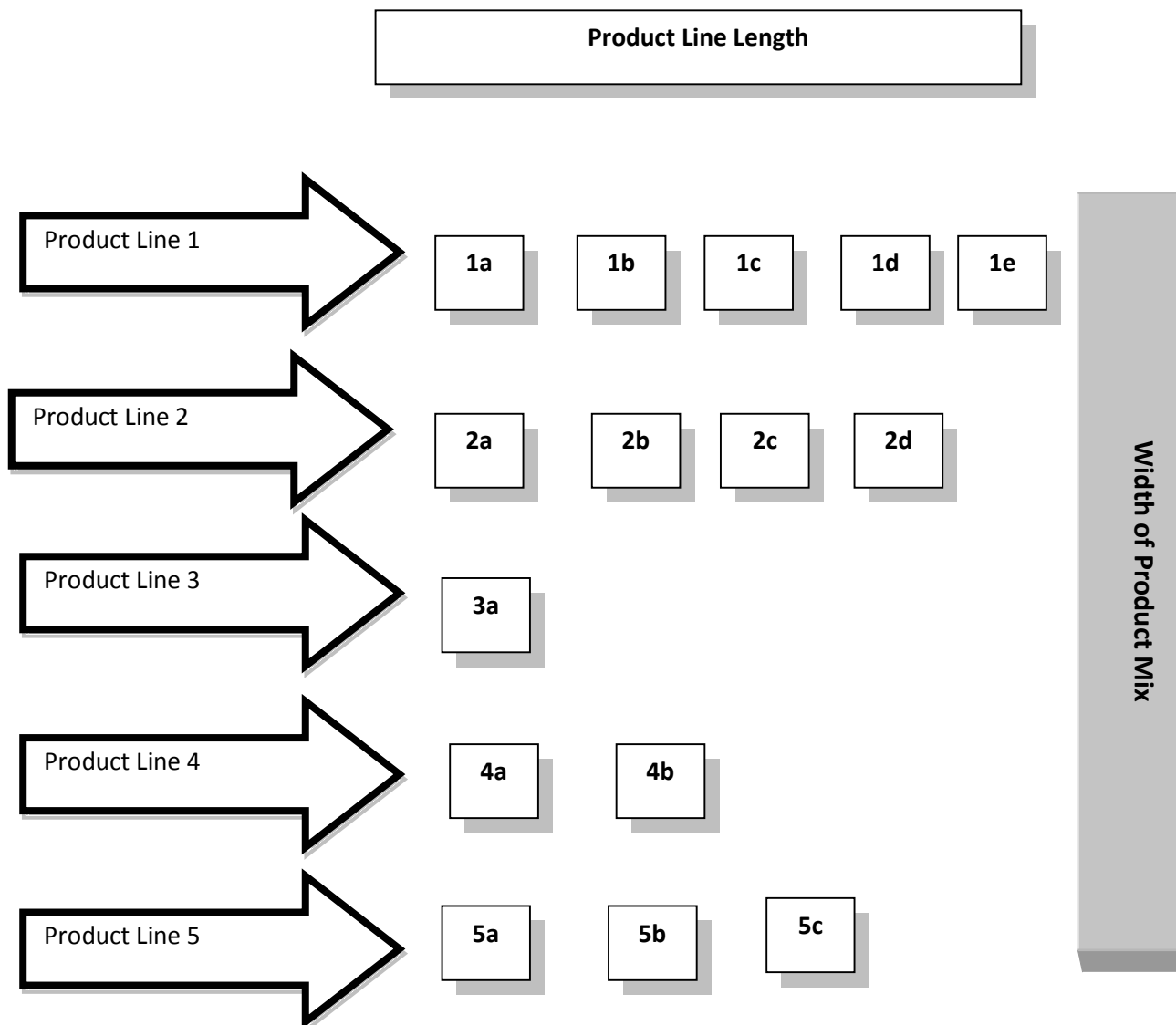


Figure 5.1 : The concepts of Product Line and Product Mix

5.4 PRODUCT MIX AND PRODUCT LINE STRATEGIES

Product mix of a seller, while giving expression to its current position, is also an indicator of the future. Thus, product mix is not a static position but a highly dynamic concept. A company may withdraw a product from its existing mix, if the product is not contributing to the profitability and growth of the company. Similarly, a new product may also be added to cash on some attractive opportunity that comes its way. Thus, the companies always attempt to maintain an optimal product mix with a view to maintain a balance between current profitability, and future growth and stability. For this end, a company alters or modifies the existing product line in any of the following ways:

- 1) **Contraction of the Product Line:** When a company finds that some of its products are no more profitable, it may decide to suspend their production. Similarly, changes in the marketing environment may also necessitate withdrawal of a product. A product may also be dropped from the product line if it is found that the same resources used for the production of the product can be put to more profitable use by producing another product. Decisions relating to these aspects are termed as *"Contraction of the Product Line"*. Thus, *thinning out the product mix either by eliminating an entire line or simplifying the product items within the line is called contraction of product line*. This is also called **Contraction of Production Mix or Product Line Simplification**. This strategy is adopted mainly to eliminate low-profit products and to get more profit from fewer products.
- 2) **Expansion of Product Mix:** To cash on available opportunities, a company decides to expand its present product line. It may also increase the number of product lines and/or the depth within a line. Such new lines may be related or unrelated to the existing product mix. For example, a company dealing in drugs and chemicals may add products in a relatively new area like Computers.
- 3) **Changes in Quality Standards:** When the market expectations undergo a change a firm may have to react by altering the quality standards of the existing product techniques. Such changes can be brought about through **Trading Up** and **Trading Down** techniques.
 - i) **Trading Up:** When we add a higher priced prestige product to the existing low-priced product line, it is termed as trading up. This strategy is adopted with the hope of increasing the sales volume of the existing low-priced products. If conditions so demand in future, the company may increase promotional efforts for the new product and thus add to overall sales volume through the new product, thereby improving profitability of the firm. In this manner a company known for low-quality products tries to raise its image of dealing in high-quality goods on the one hand and offering an alternative to buyer to choose from. We often hear such terms as "Janta Model" and "Deluxe Model" and this illustrates the point.

- ii) **Trading Down:** It is the reverse of trading up. When a firm adds low quality products at relatively lower price to its line of high priced prestige products, it is termed as trading down strategy. It helps in widening the marketing base and results in expanding overall sales volume. Introduction of moped by a company manufacturing motor cycles is a case of trading down.
- 4) **Affecting Change in Model/Style of an Existing Product:** The desire of the consumer varies with varying times. To cope with such change in the consumer mood a company can react by offering new models of a product or changing the style of an existing product.
- 5) **Product Differentiation:** Under this strategy, a firm tries to differentiate its products from the competitor's products or other products within the same product line offered by the company by highlighting quality or design. This strategy is aimed at avoiding competition on price basis. The competition is then met at non-price front and a price-war is avoided. The firm, thus, promotes awareness of the good attributes of the product offering. In view of the fact that this strategy involves large promotional effort with huge financial outlays, it is also known as **promotional strategy**.
- 6) **Product Positioning:** As an integral part of product segmentation, after the market is segmented, it becomes necessary to pinpoint the needs of each segment and offer products to satisfy the needs of specific segments. This process is referred to as **product positioning**. It includes all activities from identification of a market segment to directing marketing effort.
- 7) **New Product:** In view of increasing competition, scientific advancement, enhanced consumer expectations, it is necessary that new products are introduced. Such introduction is essential for the survival and growth of an organisation. The rate of increase in expenditure on Research and Development by many organisations is a clear proof of the need and realisation to introduce new products.

Check Your Progress B

- 1) What is the meaning of product mix?
- 2) What is a product line?
- 3) Differentiate between trading up and trading down.
- 4) What is contraction of product mix?
- 5) Distinguish between product item and product line.
 - 1) Match the items in Column A with the items in Column B.

Column A	Column B
i) Trading up	a) To avoid competition on price basis
ii) Product line	b) Adding a low priced product to a high price
iii) Contraction of product line	c) Group of closely related products
iv) Product Differentiation	d) Adding a high priced product to a low price

5.5 CLASSIFICATION OF PRODUCTS

You have studied in Unit 3 that, in order to make the market programme effective, the markets are segmented and marketing strategies are developed for each segment. In the same way, it is also useful to classify products into homogeneous groups as different types of products require different marketing approach. There are several ways of classifying products:

- 1) On the basis of the user status, products may be classified as consumer goods and industrial goods.
- 2) On the basis of the extent of durability, products may be classified as durable goods and non-durable goods.
- 3) On the basis of tangibility, products may be classified as tangible goods and non-tangible. These non-tangible goods are referred to as services.

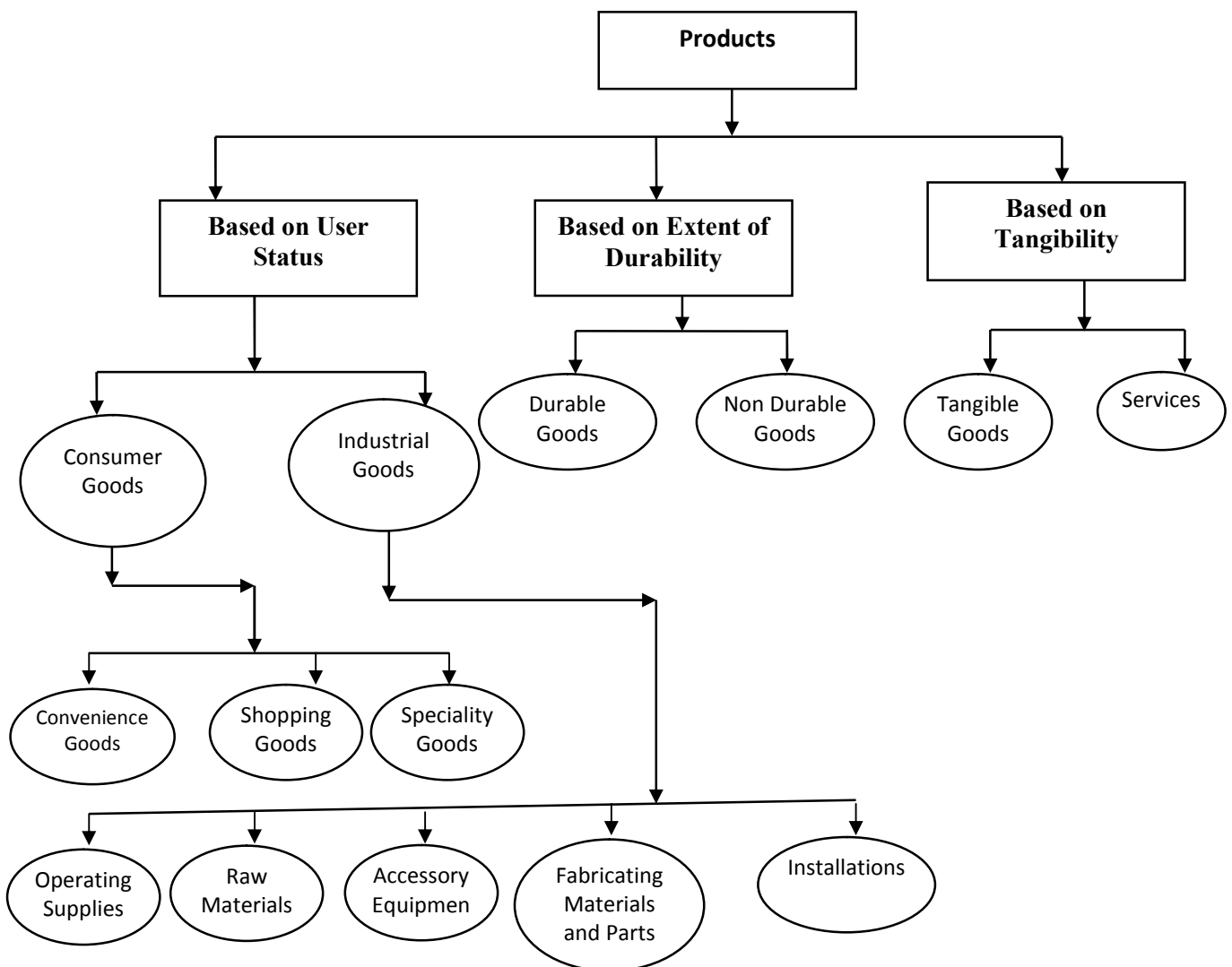


Figure 5.2: Classification of Products

Look at Figure 5.2 carefully for a detailed classification of products. These classifications are necessary for a marketer, as different types of products require different marketing strategies. Let us now take the following four major types, and analyse their characteristics and marketing strategies:

- 1) Consumer goods
- 2) Industrial goods
- 3) Durable and Non-durable goods
- 4) Services.

5.5.1 Consumer Goods

Consumer goods are those products which are bought by the households or ultimate consumers for personal non-business use. Consumers use the product in the form in which the product is being offered i.e., no further processing is done. For example, a tooth brush, a comb, a wrist watch or a moped are all meant for personal use of households and are, thus, classified as consumer goods. **Consumer goods may be classified into three types as: 1) convenience goods, 2) shopping goods, and 3) speciality goods. Let us discuss about these three categories in detail.**

Convenience Goods

A class of consumer goods that people buy frequently with the least possible time and effort are called 'convenience goods'. These are the products the consumers want to purchase frequently, immediately and with a minimum effort. Milk, bread, butter, eggs, soap, newspaper, biscuits, tooth pastes, etc., are some examples of convenience goods. This category of goods has a low unit price, is not bulky and not greatly affected by fad and fashion. They have two significant characteristics: 1) the consumer has complete knowledge of the products which he want to buy and 2) the product purchased with a minimum of effort. Convenience goods are usually sold by brand name and are low-priced. Many of them such as bread, milk and edible oil, are staple items, and the supply must be constantly replenished. In most cases, the buyer has already decided to buy a particular brand at a particular store and spends little time deliberating about the purchase decision. So convenience goods must be readily accessible when the consumer demand arises. To ensure this, the manufacturer must secure wide distribution.

The consumers rarely visit competing stores to compare price and quality while purchasing convenience goods. The possible gains from such comparisons are outweighed by the costs of acquiring the additional information. This does not mean however, that the consumer remains permanently loyal to one brand of cigarettes, or soap or biscuit. A consumer is willing to accept any of several brands and thus will buy the brand that is most accessible. Since the price of most convenience goods is low, trial purchase of competing brands or products are made with little financial risk, and often new habits are developed.

Retailers usually carry several competing brands or products and are not able to promote any particular brand. Therefore, the promotional burden to develop consumer acceptance for the products falls on the manufacturer.

Shopping Goods

There are a class of consumer goods that are purchased only after the buyer has spent some time and effort comparing price, quality, style, colour, etc., of alternative products in competing stores. The purchaser of shopping goods lacks complete information prior to the shopping trip and gathers information during it. For instance, a woman intending to buy a new dress may visit many stores, try on a number of dresses, and spend making the final choice. She may go from store to store in surveying competing offerings and ultimately select the dress that most appeals to her. In addition to women's apparel, shopping goods include such items as jewellery, furniture, appliances, shoes, etc. It is important to place the convenience goods in stores located near other stores carrying competing items, as it facilitates the convenience goods customers to compare the product. Shopping goods are typically more expensive than convenience goods.

Some shopping goods, such as children's shoes, are considered homogeneous i.e. the consumer views them as essentially the same. Others such as furniture and clothing are considered heterogeneous i.e., essentially different. Price is an important factor in the purchase of homogeneous shopping goods, while quality and style are relatively more important in the purchase of heterogeneous goods. Manufacturers of convenience goods require some retail outlets as consumers are willing to look around a bit for what they want. Normally, manufacturers directly supply the goods to the retail stores that buy in large quantities.

Speciality Goods

A class of consumer goods with perceived unique characteristics, such that consumers are willing to spend special effort to buy them, are known as Speciality Goods. The buyer of speciality goods is well aware of what he or she wants and is willing to make a special effort to obtain it. The nearest camera dealer may be twenty miles away, but the camera enthusiast will go there to inspect and buy that camera. To purchase a colour TV a person in a village may require a special trip to a nearby city which is several miles away. Still he will go there, spend his time in inspecting several brands and finally buy a set of his choice. Examples of some of the speciality goods are photographic equipment, TV sets, VCRs, stereo sound equipment, new automobiles, etc.

Speciality Goods possess unique characteristics that cause the buyer to prefer that particular brand. For these products the buyer possesses complete information prior to the shopping trip and is unwilling to accept substitutes. Speciality goods are typically high-priced and are always branded. Since consumers are willing to exert considerable effort to obtain them, fewer retail

outlets are needed. Since brand is important, the manufacturers of speciality goods advertise extensively.

This three-way classification of consumer goods allows the marketing manager to gain additional information for developing an effective marketing strategy for the product. For instance, once the new food product has been classified as a convenience product, you gain insight about marketing strategies in branding, promoting, pricing and distribution methods.

5.5.2 Industrial Goods

Industrial goods are those goods which are meant to be bought by the buyers as inputs in production of other products or for rendering some service. The product may, thus, undergo further commercial processing. Industrial products are meant for non-personal and commercial use. Industrial goods include items like machinery, raw materials, components, etc. It may be worthwhile clarifying a point that the same product may sometimes be classified as a consumer product and as an industrial product depending upon the end-use. Take the case of coconut oil. When it is used by a person as hair oil or cooking oil, it would be treated as a consumer product. However, when coconut oil is used in the manufacture of a toilet soap, it is as an industrial product. Similar, take the case of car tyres. When it is used by car owner, it becomes consumer product. The same tyre when used by a car manufacturing company, it becomes an industrial product. Thus, many products can be treated as industrial goods as well as consumer goods. However, the industrial buyer is cost conscious and is concerned about the quality and standard of the product being offered to him. An industrial buyer is not impulsive and is rational in buying effort. There fore industrial goods are to be sold in a different way from consumer goods. You have studied in detail about the difference between industrial buyer and ultimate consumers in Unit 4.

Depending on how the goods enter the production process, **industrial goods may be classified into five groups as follows:**

Raw Materials

Raw materials are those industrial goods that become part of another physical product. Raw materials include: goods found in natural state such as minerals, marine products of forests, etc., and agricultural goods like corn, cotton, fruits, milk, eggs etc. Marketing strategies for the two categories of raw material are different. First group of raw materials are normally bulky and have low unit value. They are produced by a few large producers. Second category of raw materials (agricultural rural products) is produced by a large number of small producers spread over a large area. Most of the second category products are perishable.

Fabricating Materials and Parts

This category of industrial goods also becomes actual part of the finished product. Unlike raw materials, fabricating materials and parts have already been processed, to some extent, but may need further processing before actual use. For example, yarn being woven into cloth and pig iron being converted into steel.

Installations

They are manufactured industrial products, e.g., a generator and a large pump set for city water supply scheme. They alter the scale of operations in a firm. Normally, installations are directly sold to the industrial user and middlemen are not involved. Pre-sale and post-sale servicing is required for these products.

Accessory Equipment

They are used to aid production operations of an industrial buyer, and does not have an influence on scale of operations of the buyer. It does not form part of the finished product.

Operating Supplies

They are low priced, short-lived items purchased with minimum effort and could well be termed as convenience goods of industrial field. They aid in the firm's operations without becoming part of the end product e.g., lubricating oil, stationery, etc.

It may be added that the demand for industrial products is derived, inelastic and widely fluctuating. The buyer is knowledgeable and their number is limited. Because of large size of demand, an industrial buyer can influence the market to a large extent.

5.5.3 Durable Goods and Non-durable Goods

Tangible products with a long life and lasting many years of active service to owner are termed as durable goods. Television, fan, refrigerator, pressure cooker, etc., may be cited as examples of durable goods. A durable product would require a lot of personal selling, and pre-sales and post-sales service. Such products provide a higher margin to seller but require an assured after-sales guarantee. Therefore, in case of refrigerators, the number of years of guarantee (particularly for the compressor) is an important consideration when a consumer makes his final selection.

If a customer purchases a cyclostyling machine or duplicating machine, it is necessary for the salesman to 'follow through' and visit the customer to see how is it installed and used. This product is mostly operated by 'peons' who may not know how to use it. This results in poor duplication and copies which look unattractive. The consumer gets the impression that the fault lies

with the machine. So, while marketing such a product, it is important to guide the actual uses of the machine.

Products which are consumed in one go or last a few uses and get depleted on consumption are termed as non-durable goods. Soap, tooth paste, cigarette, soft drink, etc. are some examples of non-durable goods. Soft drink is consumed at once on one occasion within a matter of minutes. Soap obviously takes a little longer. However, in both these cases, the goods are consumed very fast. The advantage of these goods is that they are purchased very often and therefore, there are many repeat purchases once the customer is satisfied with one product. Therefore, one must ensure quality and appropriateness of price. These are the products that have to be advertised heavily, with a view to inducing people to try them out, and thus, build up brand preference and brand loyalty. In view of the fact that such products are consumed fast and require frequent purchases, they need to be made available in a large number of sales points.

5.5.4 Services

Services are specially mentioned here because it is generally thought that marketing is related to products alone. It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products. *Services are the separately identifiable, essentially intangible activities which provide want satisfaction and which are not necessarily tied to the sale of a product or another service.* For example, courts offer a service. So are hospitals, the fire department, the police and the post office offer a service. These are not products in the normal sense and yet it is very important for each of these institutions to have an appropriate image. The police are often criticised; the fire departments are generally praised; the post offices are criticised for delays; the hospitals are perhaps criticised for negligence and exorbitant rates and so on. It is obvious that controlling the quality of service is important for building up its image.

Apart from government or public sector undertakings, there are 'non-profit' organisations such as museums and charities. Although non-profit, they also have to provide the best form of service for their popularity. The business and commercial sectors which include airlines, banks, hotels and insurance companies, and the professionals such as chartered accountants, management consulting firms, medical practitioners, etc. need marketing.

Check Your Progress C

- 1) Distinguish between consumer goods and industrial goods.
- 2) Distinguish between durable and non-durable goods.
- 3) What is a service?

- 4) State whether the following products are consumer goods or industrial goods
- i) Electricity
 - ii) Shoes
 - iii) Petrol
 - iv) Car
 - v) Mango
 - vi) Toys
 - vii) Electricity Generator
- 5) Which one of the following are durable goods and which are non-durable goods ?
- i) Television
 - ii) Tooth Paste
 - iii) Bath Soap
 - iv) Refrigerator
 - v) Desert Cooler
 - vi) Hair Oil

5.6 PRODUCT DIVERSIFICATION

A single product company can hardly expect to provide satisfaction to many consumers for a long time. On the other hand, a multi-product company can offer an alternative product to meet the changing needs and tastes of the consumers. It is for this reason that most companies, as a matter of policy, offer a variety of products in product-mix. This phenomenon is called **product diversification**. The firm would strive to add something new, it may be a new product or it may be entry into a new market or it may be inducting some new technology. For example, Brooke Bond have diversified from Tea/Coffee market into the business of selling spices. Hindustan Machine Tools Ltd. (HMT) started with machine tools but later on diversified into such areas as watches, tractors, printing machinery and electric bulbs. Thus, *product diversification means adding a new product to the existing product line or product mix*. Product diversification is applicable not only to production, but to selling or distribution as well. A seller dealing in watches may diversify by selling toys.

Generally, diversification is categorised into two types : 1) related diversification and 2) unrelated diversification.

5.6.1 Related Diversification

Where the new products introduced in the product mix are similar to the existing products, it is described as 'related diversification'. Related diversification is the most common form of diversification, which is inexpensive and easier. For example, Hindustan Unilever offers a variety of toilet soaps such as Lifebuoy, Lux, Pears, etc., and also other brands of soaps or cleaning materials such as Vim, Surf or Rin as part of related diversification strategy. So far, the relatedness of the products is quite clear. However, this relatedness is sometimes stretched to include other similar items. For example, in case of Hindustan Unilever, toiletries would also be included under related diversification. For example, Hindustan Unilever produces Pepsodent and Close Up tooth Pastes.

Do you know why Gillette Company launched their razor? Surprisingly, the answer was not just to make more profits through this extra product namely the razor, but to increase the sale of their blades.

Some of the probable reasons for companies undertaking related diversification are :

- 1) to make a more effective use of the existing selling and distribution facilities,
- 2) to use its under-utilised production capacity,
- 3) to meet varied customer needs,
- 4) to take advantage of its existing reputation in a particular type of products, and
- 5) to increase the sale of existing products.

How far should a company venture to diversify into related product line depends upon whether:

- 1) Diversification reduces the unit cost of selling and distributing to middlemen
- 2) The existing sales force can effectively sell the proposed products,
- 3) It can meet the competitive threats or who are, the possible competitors what are their cling strategies, strength and limitations,
- 4) There are additional expenses involved in promoting the new product, the company can meet such additional cost,
- 5) The new product will improve the organisational image and reputation,
- 6) The company can undertake manufacturing of the new product at a reasonable cost, and
- 7) The proposed new product can be effectively differentiated to attract potential buyers.

If the answers to most of these questions are yes, affirmative, the company would be well advised to launch such a diversification.

5.6.2 Unrelated Diversification

When the new products offered or introduced are quite different from the existing one, company is said to have adopted the strategy of unrelated diversification. For example, if a manufacturer of consumer products diversifies into the manufacture of raw materials such as chemicals or industrial products, such diversification is described as unrelated diversification. This naturally involves heavier costs and managerial challenges. This is the reason why is related diversification more popular.

For example, Hindustan Unilever was basically a consumer product company. It was forced into unrelated diversification because of its desire to grow in the case of Foreign Exchange Regulation Act and Industrial Licensing Policy. Today this company is a leading manufacturer of sodium tripoly phosphate (STPP), glycerine, nickel catalyst and fine chemicals. It is also producing a plant-growth nutrient a product of its own research, branded 'Paras'. It is supported to increase cereals and vegetable yields considerably. Thus, this company has now diversified into unrelated products. Take Godrej Company, another well known company which has a varied product mix. It makes not only cosmetics, but also steel furniture, animal feed and locks. It can be seen that this company has also adopted unrelated diversification as its product mix strategy.

Unrelated diversification is 'new product-new market' strategy. Diversification into unrelated product line aims at increasing profitability of a company through increased sales volume by addition of new products in new markets, i.e., by selling unrelated product lines to entirely different markets. This is also called conglomerate strategy and is normally achieved through making acquisitions and affecting mergers. It can also be brought by an unexpected scientific research breakthrough or by coincidence finding an opportunity unfolding itself.

This strategy entails considerably greater risk than any other product-market strategy. It is a situation where the company is new both to the product and to the target markets. In view of this, it is essential that the company should assess the pros and cons of such product/market entry very carefully. As a matter of policy, this strategy should be embarked upon only after all other strategies have been fully filed-up i.e., present product lines do not provide any further scope of diversification.

5.6.3 Advantages of Diversification

Diversification has a number of advantages to the seller:

- 1) It helps the company to increase overall profitability,
- 2) Addition of new products helps in attracting new dealers,

- 3) Sometimes additional products help in spreading over-head costs, thereby reducing unit cost of all products,
- 4) Diversification helps to level off production and effectively reduce seasonal fluctuations in production and sales,
- 5) If the additional products are based on the raw materials presently being used, the cost of the raw materials may be reduced because of the advantages of large purchases,
- 6) A small scale firm suffers from the weaknesses of low-level production e.g. high per unit cost, low level of standardisation, lack of specialisation, etc. These can be overcome through diversification.

It may, however, be stated that product diversification is a strategy, and not a panacea for all ailments of the firm. Diversification is useful if the company can afford to practise the multi-product multi-market posture. The company should have the needed financial and managerial resources to practice diversification. The management should do a detailed analysis of the company's product-market posture.

Check Your Progress D

- 1) What is product diversification?
- 2) Differentiate between related diversification and unrelated diversification.
- 3) State whether the following can be treated as related diversification or unrelated diversification.
 - i) A refrigerator manufacturer started the production of air conditioners.
 - ii) Producer of washing powder started the production of washing machines.
 - iii) Cycle producer started the production of cycles for kids.
 - iv) A company selling toilet soaps entered into the market of washing soaps.
 - v) A cement company diversified into iron and steel.
 - vi) TV manufacture started manufacturing of play station.

5.7 LET US SUM UP

A product is any offering to the market for possible purchase or use. It encompasses physical objects, services, places, organisations, persons and ideas. Essential attributes of a product include : tangibility or intangibility, associated with some attributes for being identified and accepted, should have exchange value and should provide satisfaction.

A product line is an expression generally used to describe a group of closely related products. Product mix refers to all the products offered by a firm and has three components, viz., depth, breadth and consistency. Product line strategies are: 1) contraction of product line, 2) expansion of product line, 3) changes in quality standards, 4) trading up and trading down, 5) changes in model and style of an existing product, 6) product positioning, and 7) new products.

Products may be classified in many ways. Based on the user status, products can be classified as consumer goods and industrial goods. The goods which are bought by the households or ultimate consumers for their non-business personal consumption goods are called consumer goods. Consumer goods may be further classified as convenience goods, shopping goods and speciality goods. Industrial goods are those products which are meant to be used by the buyers as inputs in production of other products. They can be classified into raw materials, fabricating materials and parts, installations, accessory equipment, and operating supplies.

We can also categorise tangible products into durable and non-durable goods depending upon the period during which a product is used by a consumer. Services are those separately identifiable, intangible activities which provide want satisfaction, and which are necessarily tied to the sale of a product or another service.

When a manufacturer offers more than one product, it is described as product diversification. Where the new products introduced in the product mix are similar to the existing product, it is described as related diversification. When a company introduces new products which are very different from the existing products, the diversification is called unrelated diversification.

5.8 KEY WORDS

Accessory Equipment: A category of industrial goods that aid production operations of an industrial buyer and does not have an influence on the scale of operations of the buyer.

Consumer Goods: Products bought by the individuals or households for their personal non-business use.

Contraction of Product Line: Dropping a product from the product line.

Convenience Goods: A class of consumer goods that people buy frequently with least possible time and effort.

Durable Goods: Tangible products with a long life and lasting many years of active service to owners.

Fabricating Materials and Parts: A category of industrial goods that have received some processing and will undergo further processing as they become a part of another product.

Industrial Goods: Products bought by the individuals or institutions for use in production of other goods or for rendering some service.

Installation: Manufactured industrial products that directly affect the scale of operation of an industrial user.

Non-durable Goods: Tangible products that are consumed in one go or last a few uses and get depleted on consumption.

Product: A set of tangible and intangible attributes including packaging, colour, price, manufacturer's and retailer's services which buyer may accept as offering for satisfaction of wants or needs.

Product Differentiation: Differentiating the product from the competitor's product or products offered by the same company by highlighting quality or design.

Product Diversification: Adding a new product to the existing product line or product mix.

Product Item: An individual product offered by a seller.

Product Line: Refers to a group of closely related products offered by a particular seller.

Product Mix: Refers to all the products offered by a particular seller.

Raw Materials: A class of industrial goods that have not been processed in any way and that will become part of another product.

Related Diversification: Adding a new product that is similar to the existing products.

Services: Essentially intangible and separately identifiable activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or another service.

Shopping Goods: A class of consumer goods that are purchased only after the buyer has spent some time and effort comparing price, quality, style, colour, etc., alternative products in competing stores.

Speciality Goods: A class of consumer goods with perceived unique characteristics such that consumers are willing to spend special effort to buy them.

Trading Down: Adding a low priced product to the existing high priced prestigious product line.

Trading Up: Adding a high priced prestige product to the existing low priced product line.

Unrelated Diversification: Adding a new product which is different from the existing products.

5.9 ANSWERS TO CHECK YOUR PROGRESS

- A 2. i) False ii) True iii) False iv) True v) False
- B 6. i) d ii) c iii) e iv) a v) b
- C 4 i) It can be a consumer product or an industrial product.
ii) It is a consumer product.
iii) It can be a consumer product or an industrial product.
iv) It is a consumer product.
v) Consumer product. But when used by a company which sells fruit juice, it can be an industrial product.
vi) Consumer product.
vii) It can be a consumer product or an industrial product.
5. i) Durable ii) Non-durable iii) Non-durable iv) Durable v) Durable
vi) Non-durable
- D 3. Related diversification - i, iii, iv & vi
Unrelated diversification - ii & v

5.10 TERMINAL QUESTIONS

- 1) What is a product? Explain how the classification of products is helpful to marketers?
- 2) Distinguish between product item, product line, and product mix. Describe various product line strategies.
- 3) How would you distinguish between a consumer good and an industrial good? Is this distinction important? Why?
- 4) Can a firm follow concurrently product line contraction and expansion strategy in product mix? Discuss.
- 5) What are the different methods of diversification? How would you plan diversification performance for the firm?

<p>Note: The questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.</p>
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UNIT 6 NEW PRODUCT DEVELOPMENT AND PRODUCT LIFE CYCLE

Structure

- 6.0 Objectives
- 6.1 Introduction
- 6.2 Importance of Product Innovation
- 6.3 New Product Development
 - 6.3.1 Idea Generation
 - 6.3.2 Idea Screening
 - 6.3.3 Concept Development and Testing
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 - 6.3.5 Product Development and Marketing Strategy Development
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- 6.4 Why do New Products Fail?
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- 6.6 Marketing Strategies at Different Stages of PLC
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- 6.9 Answers to Check Your Progress
- 6.10 Terminal Questions

6.0 OBJECTIVES

After studying this unit, you will be able to:

- state the meaning and importance of product innovation;
- describe the new product development process;
- explain the concept and stages of product life cycle; and
- describe the marketing strategies at different stages of product life cycle.

6.1 INTRODUCTION

In Unit 5 you have learnt the meaning of product and various other related terms associated with it. For every company an innovative product programme is essential for the survival and growth. However, a new product just does not happen. It has to be contrived and the company has to plan it. In this unit, we will discuss the process of developing a new product, the

concept of product life cycle, stages in the product life cycle and marketing strategies at each stage.

6.2 IMPORTANCE OF PRODUCT INNOVATION

To innovate means to introduce something new - to introduce novelties or to make changes. When we apply this meaning to a product, an innovated product may be construed as an entirely new product or an existing product being offered with some change or modification. ***A new product is, therefore, defined as a product that opens up an entirely new market, replaces an existing product or significantly broadens the market for an existing product.***

Need for an entirely new or an innovated existing product is obvious. No company can completely rely on the same product mix indefinitely. Competitors are always keen to grab a share on others' market. It is for this reason that developing new products is considered to be one of the most important activities of any business. Normally companies keep on introducing new products, each promising some additional benefits to the consumers. As a matter of fact the very justification of the existence of a business is its ability to satisfy the customers. ***A business is therefore responsible to provide much needed satisfaction to the customers through the medium of its products and services, and innovation is the keynote of this process.***

Nature has bestowed many varieties of resources to us. These resources are not carefully used; we shall sooner or later exhaust them, leaving the future in darkness. Take the example of crude oil. Unless petroleum products are used with care, a day may not be far off when there may not be any crude oil left in the world. Imagine the situation afterwards; there will be no vehicles, no industrial activity, no cooking gas and no furnace oil. The list is endless but horrifying. It is, therefore, important that ***products be carefully planned so that we make use of natural resources in an optimal manner.*** We simply cannot afford to waste such gifts of nature.

Similarly, ineffective use of manpower. If products are not planned properly and fail after their introduction in the market, all human efforts go waste. Yet we find that a large number of products meet this fate, hence a word of caution. It is important to assess the needs of the prospective customers and then the organisation should make use of appropriate technology to satisfy that need by matching it with an appropriate product or service.

A company can survive and grow only if it increases its profitability. This can be achieved through designing new products and then backing it up with a suitable marketing programme. It may, however, be recognised that adding a new product involves lots of expenditure. ***Unless it is properly researched and monitored, the new addition to product/mix may not bring the desired results. It may lead to product failure and results in loss to the company.***

The consumer is becoming more and more selective in his choice of a product. With intense competition to face, a company has no option but to seek newer and newer ideas leading to more and more new products to match the situation.

To conclude, we may quote Peter Drucker, an eminent management thinker. He said, *because it is its purpose to create a customer, any business enterprise has only these two basic functions: marketing and innovation*". Ultimately it boils down to the dictum *"innovate or perish"*

6.3 NEW PRODUCT DEVELOPMENT

As you must have realised by now, it is very important to have a strategy for developing new products. Many products fail and in order to keep expanding company sales, we must have new products. Some products of Hindustan Unilever have failed, but still they remain leading manufacturers because they have continuously added to their lines and added product lines to their product mix. Their "Hima" peas introduced in the 60s flopped, because, in the words of the Chairman of Hindustan Unilever, "India is not yet ready for convenience foods, neatly done up in packages" The product 'concept' requires testing before one goes into product designing and it is very necessary to have an adequate strategy for developing new products and introducing them.

New product development involves marking out and supervising the search, screening, development and commercialisation. It therefore, embraces decisions regarding the type of product idea to be taken in hand, its development and reaching the ultimate consumer to satisfy his demand. Such a philosophy of marketing would ensure the introduction of logical, well designed and individually justified products. This will enable the company to face the competition from a position of strength.

New product development, therefore, starts with the conception of a product idea, its due screening for its commercial and technical viability, probing its market potential and consumer acceptance, matching it with company facilities and constraints, developing the product with due thought and care, and its ultimate offering the largest market segment. This sequence can well be described as a customer-oriented approach to new product planning.

From the above discussion you will appreciate that introduction of a new product is highly sophisticated and difficult task and involves a long-term planning effort. It has a cost component. Even after a product is finally developed, its marketing costs are exceedingly high and yet there is no certainty that it will succeed. It is for this reason that a company should move from stage to stage in a careful and systematic manner. The approach is composed of seven steps as demonstrated in Figure 6.1

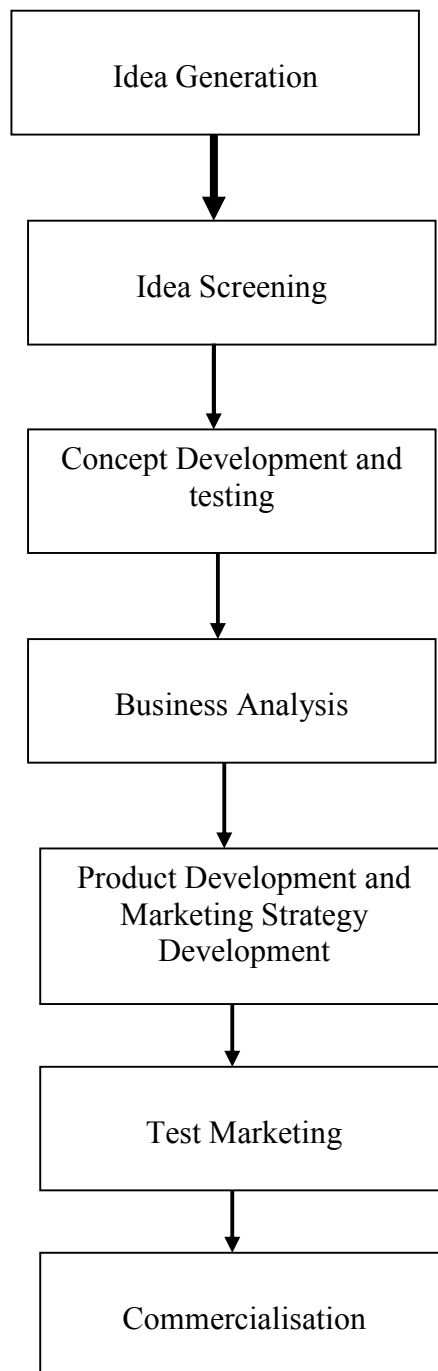


Figure 6.1: Stages in New Product Development

We shall now discuss each stage in some detail:

6.3.1 Idea Generation

The new product approach starts with the generation of a product idea. It means matching a perceived need with the recognition of a technical opportunity. The said need may be new or an old one. It could be apparent or latent. When a technical opportunity is recognised for satisfaction of any type of needs, a product idea is generated. The new product idea can come from any one of these sources:

- 1) **Customer:** As marketing is aimed at satisfaction of consumer needs, an alert marketer can get some ideas from the customers for possible new

product. This may be done by keeping his eyes and ears open, and more particularly the mind to perceive even needs which are so far unexpressed. For example, in case of refrigerators someone conceived the idea of having a two-door refrigerator, another conceived ball point which obviated the need for constantly filling fountain pens. Thus, the new ideas can come from customer needs or problems requiring solution. A customer may offer a suggestion or express some need that has remained unsatisfied.

- 2) **Competition:** A new product may have been introduced by a competitor or market intelligence may inform that the competitor is developing a new product. Taking a clue from such information, the company may get the idea and experiment with it.
- 3) **Company Sources:** Sometime ideas are put forward by company salesman or distribution channel members. Such ideas are worth consideration because such people are in direct touch with the market and are capable of detecting an unsatisfied need. Similarly, a new technological breakthrough may be announced by the company's Research and Development wing. New ideas can also be thought of by managers who keep on thinking about better products. In some cases, companies conduct brain-storming sessions to promote new idea-generation from different levels and types of people in all branches of the organisation. This is basically done to have a flow of ideas.

A number of people, say executives of the organisation, are called together and asked a question for new ideas or ideas for new products. They are asked to mention it without evaluation. None is criticised. The answers are recorded on a tape recorder so that the flow is not interrupted. Thereafter, the answers generated are evaluated as will be explained in the next stage.

6.3.2 Idea Screening

After product ideas are gathered, next step is to screen them for their relative merits. In other words, product ideas generated earlier are critically evaluated at this stage. Poor ideas must be dropped immediately because unnecessary cost has to be incurred to process them further. The evaluation helps us to determine which ideas are fit for further probing and which are the ones that may be discarded. The ideas which are not compatible with the objectives and constraints of the company obviously get abandoned at this stage. Each idea must conform to company objectives and marketing needs, as also the constraints and limitations of the company. For example, a technologically sound idea may not suit the company because it may require a large capital which the company may not afford. Similarly, a company which is known for good products at economical prices may not find it easy to offer a high-priced new product because of the past image limitation. So, rather than taking up

all the ideas generated, it is proper that only such ideas that come up to company and market expectations, may be pursued further.

No company can afford to pursue all ideas simultaneously. Thus, *the basic purpose of screening is to filter the ideas and select the most promising ones*. For this purpose you have to analyse the factors like market potential, profitability, likely sales volume, production facilities, availability of raw materials, possibility of using existing plant and machinery, sales force and distribution channels, financial resources the company can commit to the proposed project, etc.

6.3.3 Concept Development and Testing

The screened idea is now expanded into a concrete business proposal. From a mere expression in functional terms, the idea now gets transformed into a product concept. It means developing a fairly complete picture of the proposed company offering. It includes, in clear terms, the specifications of target consumers, the specific need proposed to be satisfied, the manner in which the need is to be satisfied, the benefit the consumer would derive from it and the cost of such need-satisfaction to the consumer. Thus, as far as possible, the concept should be exposed to target customers so that their reactions could be obtained for further evaluation. The concept so developed must be evaluated in the broader perspective of sales and profit potential, completion of product line, optimising the manufacturing and marketing facilities etc. For example, people talk about battery driven cars' to save petrol. This is a concept which has to be tested in the environment in which the product is sought to be introduced. As already indicated, Hindustan Unilever failed with their Hima peas and fast foods. This was a failure of concept testing. The mention of the failure of Hindustan Unilever is not to run down the performance of this excellent company but to emphasise that good companies introduce a number of products some of which may fail.

The introduction by Parle's of the "Big Bite" (the hamburger) did fail in some of the regions in Indian market. Was this due to wrong concept? The answer probably is the negative. The failure was because the customer got 'soggy' hamburgers retail end. Thus, there was lack of 'quality control' at the level of the retail outlets which did not supply freshly cooked hamburgers. So you can see that even if the concept is accepted, a failure can take place in other areas resulting in the ultimate failure of the product itself. This did not deter the company from going further. Parle's introduced Frooti and Appy which are fruit based soft beverage. These are offered in tetra packs. Thus there is an innovation. The question of whether testing, of the package tetra packs, as packaging material, will succeed in India or not is a question of 'concept testing' of the package.

6.3.4 Business Analysis

As a process of continuation of concept development, at the stage of business analysis, a fairly detailed appraisal of the proposal is undertaken. The exercise comprises of projection of future demand, sales, costs, investments and return on investment. Thus, a complete profile of the proposed product is developed.

It may be contended that such figures cannot be accurately predicted. For this reason usually the company evaluates the project under different sets of assumptions about such critical elements as sales, costs and profits. Such sensitivity analysis helps the company to appreciate the acceptable range of performance for a given product and the possibility of achieving those levels of performance.

6.3.5 Product Development and Marketing Strategy Development

By now the idea has been thoroughly screened and analysed. The time has come to convert the idea into a product. At this stage the idea gets transformed into a concrete shape, with all the needed attributes as assumed at the previous stage. An attempt, therefore, is made to develop a prototype of the proposed product. This will help us to determine if the idea has the requisite technical potential and whether the company can master the needed technology.

This stage requires a close co-ordination between Engineering and Marketing Divisions. Engineers develop appropriate drawings, designs and build the prototype in line with prescribed specifications. ***The focus of the whole job is to build up such a product prototype that is approximately close to the consumer product specifications.***

Along with the process of product development, the marketing division of the company develops a tentative marketing strategy. A blue-print is designed about the price structure, promotion and distribution strategy for the proposed product. They complete formalities regarding identification of sales force needs, advertising programme and sales promotion tools in relation to the new products. While doing so, the resource needs and capability of the organisation in this regard are kept in mind. If the company finally decides to give a green signal to the product idea, the following activities are to be taken up :

- 1) Establish development project.
- 2) If some changes have been found necessary, build the prototype with changed specifications.
- 3) Complete laboratory evaluation is done.
- 4) After developing tentative marketing strategy, the prototype is released for testing.

6.3.6 Test Marketing

After the product idea takes shape in the form of a prototype, and tentative marketing programme has been formulated, one may go for commercial production and release in the market. However, a wise marketer does not expose the organisation to undue risk and wants to re-assure himself of a positive response. For this purpose, he undertakes 'test marketing' of the proposed product. This product testing helps in gathering further customer reactions so as to bring about necessary changes in the prototype and other aspects of tentative marketing-mix, if need be. ***Test marketing is, therefore, defined as a research technique in which the product under study is placed on sale in one or more selected localities or areas, and its reception by consumer and trade is observed, recorded and analysed.*** The aim is to try out the proposed marketing programme in a well selected representative market segment in the expected marketing environment in which the proposed product is eventually to be placed.

By test marketing the marketer re-assure himself about the sales volume and profitability levels of the proposed product. He also gets an opportunity to ascertain the nature of consumer section to the proposed product. Test marketing triggers off market and competitive reaction to the new product. With this feedback, the marketing manager can refine the marketing strategy formulated earlier.

The following information is gathered during test marketing:

- 1) Potential sales volume generation.
- 2) Identify buyers with innovative bent of mind.
- 3) Compare assumed target buyers behaviour with actual behaviour of the buyers.
- 4) Acceptance of strong points of the new products by the buyers.
- 5) Evaluation of impact of advertising message.
- 6) Competence evaluation of the proposed distribution channel to make the product available in the target market segment chosen.
- 7) Determine potential of repeat demand for the proposed product.

6.3.7 Commercialisation

Based on the information generated during test marketing, the product is duly modified and improved, and strategies about pricing, distribution and promotion are developed. Now the product is ready for introduction in the larger market. The product is produced in commercial scale and offered for sale in the market. As a part of marketing strategy, the company may decide to introduce the product in the entire market at the same time; or it may be introduced in a phased manner in different areas. This is decided keeping in

mind the production level and assuring that the product would not go into short-supply soon after introduction.

6.4 WHY DO NEW PRODUCTS FAIL?

Even after thorough screening at each and every stage, all the new products introduced in the market may not succeed. Many of them fail and are withdrawn from the market. For example, as stated earlier, Hindustan Unilever failed with their Hima Peas and Fast Foods. Similarly, Parle's hamburger 'Big Bite' was a failure in some markets while successful in other markets. Thus, every product introduced in the market may not succeed. Now the question is: Why do products fail in the market? The reasons for product failure are attributed to six factors by Cundiff and Still. They are:

- 1) **Product Problems:** The products fail in the market due to certain problems with product itself. For example, as neglect of market needs or ignorance of market preferences, defects in product function, poor technical design or external appearance, poor packaging or inappropriate sizes, undependable performance or too high a variation in quality, etc.
- 2) **Distribution and Channel Problems:** Products fail due to certain problems in Distribution such as inappropriate channels or outlets, lack of co-operation from middlemen, poor system of physical distribution, etc.
- 3) **Promotional Problems:** Promotional problems that contribute to the product failure are: inadequate or ineffective promotion, advertising directed towards wrong market segments, improper use of wrong appeals, failure to co-ordinate adequately with distribution system, improper training to sales force, etc.
- 4) **Pricing Problems:** Pricing problems such as bad forecast of price that buyers would pay, price not on par with product quality, poor cost estimates caused 'asking price' to be too high, inadequate margins for the middlemen, etc. also responsible sometimes for product failure.
- 5) **Timing Problems:** Timing of product introduction is very important. If product is introduced too soon or too late, it may fail.
- 6) **Competitive Problems:** Competitors' aggressive strategies with respect to product distribution, promotion and price may cause serious setback to the product in the market. The company had to react defensively rather than pursuing strategies.

The number and variety of the reasons for product failure suggest that success of a new product depends on the skills and strategies not only in product innovation but in formulating and implementing marketing strategy. Throughout the product innovation process, management should carefully watch the target market. An appropriate organisation is required to guide and

co-ordinate the product innovation process at each and every stage. Besides introducing the product at appropriate time components of marketing strategy (product, distribution and marketing channels, promotion, and price) must be combined in appropriate proportions at each stage of the product life cycle. Skill in implementing the marketing plan is required and be capable of changing the strategies in accordance with the changing market and competitive conditions.

Check Your Progress A

- 1) What is product innovation?
- 2) What are the major steps in the development of a new product?
- 3) State whether the following statements are **True** or **False** :
 - i) Product innovation is necessary to meet the changing preferences of consumers.
 - ii) Products which are thoroughly screened at the development stage always succeed in the market.
 - iii) New product ideas generate from consumers only.
 - iv) Commercial viability of the product is tested during commercialisation stage.
 - v) At the stage of market testing, product is actually tested in a segment of the target market.
 - vi) Product is introduced in the target market in full scale during market testing.
 - vii) New products fail only because of unreasonable price.
 - viii) Prototype of the proposed product is developed during concept development and testing stage.

6.5 PRODUCT LIFE CYCLE (PLC)

Like human beings, products also have a distinct life cycle. A product generally passes through four stages during its entire life from birth to death. These stages are. 1) introduction, 2) growth, 3) maturity, and 4) decline or obsolescence.

Thus, **product life cycle refers to the stages a product goes through from its introduction, through its growth and maturity, to its eventual decline and death (withdrawal from the market).**

A company which introduces a new product naturally hopes that the product will contribute to the profits and provide consumer satisfaction for a long period of time. This however, does not always happen in practice. So, business organisation tries to remain aware of what is happening throughout the life of the product in terms of the sales and the resultant profits.

The sales volume and profit curves vary with each product. However, basic shape and relationship between the two factors usually remain identical. As stated earlier, new products are essential for sustaining the organisations and for each new product we have to take stock of the relation between sales volume and profit margin. The relationship of the two curves (sales volume curve and profit margin curve) must be clearly understood before formulating marketing policy. A company must understand and manage the various stages of life cycle of a product to ensure marketing success.

The total length of the life cycle varies from product to product. It ranges from a few weeks (as in the case of a fashion or a fad) to several years (as in the case of motor cycles or refrigerators)

You should note that among various products the duration of each stage is not the same. As a matter of fact it is different with each product. There are product which remain in the introductory stage for a numbers of years, while some others may find market acceptance in a few weeks and thus move on to the next stage of this life cycle.

Similarly, all products may not pass through all stages of life cycle. A product may fail right at the stage of introduction. There may be situations where a company may not enter a market till the product of another company gains acceptance and reaches the growth or maturity stage.

However, all products enter the decline and possible abandonment phase. This could be because of any of the following three reasons.

Firstly, the need for the product is not there. Secondly, a better or less expensive product came into the market. Thirdly, a competitor, with a better marketing effort, forces the company product out of the market area.

Look at Figure 6.2 carefully. It presents the relationship between the sales volume and profit volume at different stages of the product life cycle.

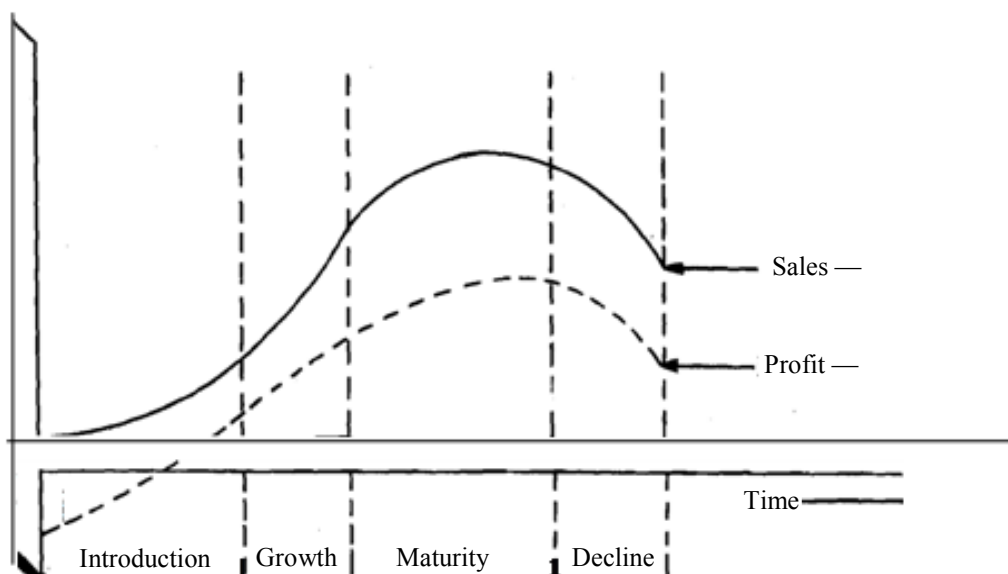


Figure 6.2: The Product Life Cycle

Introduction Stage

During this stage arrangements for full scale production are made, a marketing programme is finalised, and the product is offered to the market. From Figure 6.2 you can assess that the sales volume shows an upward trend, but the rate of growth is quite slow. At this stage, the product being new and has been first made available for purchase in the market, it may not face competition in the market.

The company has to communicate with target market and inform potential customers of the new arrival in a big way, thus incurring high promotional expenditure. The promotional effort is also aimed at inducing the potential buyers to buy and test the product. It also aims at securing distribution at retail outlets in the process. More money is spent in attracting distributors for the new product. Because of this high promotional costs and low sales volume, during this introduction stage, the profits of company are low and sometimes even negative.

There are, if at all, only a few competitors and they all offer the basic version of new product without any refinements. Selling effort at this stage is, therefore aimed at those prospective buyers who can be motivated to buy. Product at this stage, has usually price high because of low level of production and high cost of promotion distribution.

Growth Stage

After the product gains acceptance in the market i.e., accepted by the consumers as well as trade, it enters into the growth stage. Now the demand of the product grows rapidly, generally outpacing supply. In the light of increased sales volume, the company profits also increase. Effective distribution and promotional efforts are considered key factors during this stage, so as to cash on the rising trend of demand. The company considers increased sales volume as a top priority.

In the wake of rising demand, a large number of competitors begin to enter the market. The competitors start adding new features to the product. With the rise in competition, distribution outlets also increase in number resulting in increased demand to "fill the pipeline". Prices normally remain at the same level or may fall marginally. Promotional tempo is maintained or even raised to meet the challenge of competition.

Maturity Stage

It is too optimistic to think that sales will keep shooting up. At this stage, it is more likely that the competitors become more active. In case your product is a novel one, by now competitors would have come out with a similar product in the market to compete with yours. Therefore, the sales are likely to be pushed downwards by the competitors while your promotional efforts would have to be increased to try and sustain the sales. Thus, the sales reach a plateau. This is called the 'maturity stage' or 'saturation'. At this point it is

difficult to push sales up. With regard to the profit picture, the profits are likely to stabilise or start declining as more promotional effort has to be made now in order to meet competition. Unless of course, you have the largest market share with your product and it needs no extra push in the market.

Decline or Obsolescence Stage

Thereafter the sales are likely to decline and the product could reach the 'obsolescence' stage. Steps should be taken to prevent this obsolescence and avoid the decline. This decline that generally follows could be due to several reasons such as changes in consumer tastes, improvement in technology and introduction of better substitutes. This is the stage where the profits drop rapidly and ultimately the last stage emerges. Retaining such a product after this stage may be risky and certainly not profitable to the organisation. Thus, a firm has to finally choose between a total abandonment of the product or continue it in a specialised limited market. The decision will be based on the level of remaining opportunity and ability of the management in this regard.

6.6 MARKETING STRATEGIES AT DIFFERENT STAGES OF PLC

Product Life Cycle as a concept is directly linked to the overall marketing strategy of the organisation. It not only affects the product planning exercise but also other components of the marketing mix, viz., pricing, promotion and distribution. Now, let us study the various strategies normally adopted at various stages of PLC.

Introduction Stage

At the introductory stage, we have to increase sales and hence spend a lot on physical distribution and promotion. This is because we have to create an awareness and acceptance of our product. We must also increase its availability. Very often in India, it is noticed that a product is advertised but is not available at the distribution outlets. This is a waste of promotional expenses. We must make optimum use of the available resources of the organisation. Thus, distribution should be arranged before the product is launched.

We have to also counter the reluctance of customers to change their established patterns and make them purchase our product, particularly if it is of a novel nature. As against this, if it is a novel one, people may even buy it out of sheer 'curiosity'. The company can adopt skimming price strategy if it fears the entry of many competitors in the line. Alternatively, it may adopt penetration price (low price) to penetrate deep into the target market, thereby make the competitors' entry difficult, if not impossible. Skimming price is more effective when the threat of competition in the short run is not there and the company assures itself of return on investment right from the beginning. On the other, if there is likelihood of entry of competitors' penetration

strategy is appropriate to keep competitors at bay.(You will study in detail about pricing in Block 3.)

Growth Stage

During the growth stage, with mounting expenses in all phases of marketing mix, the growth opportunity entails large investments. Such large financial outlays assure the company to enlarge the market share. In view of the fact, that sales graph is indicating a rapidly rising trend, the company may have to invest sufficient sums to keep production in pace with rising sales volume. All this, therefore, calls for more production, extended distribution, and well thought out pricing and promotion policy. During the last phase of growth stage, when the sales shoot up and we are satisfied with the profit generated by the product, competitors will now enter the market and perhaps offer new product features. Therefore, we may have to think of improving our product so that we do not reach the ultimate 'decline' stage too quickly. The promotional expenditure is maintained at the same level or is raised slightly in order to meet competition.

Maturity Stage

We now come to the next stage called the maturity stage. This stage generally lasts longer than the other stages and poses problems for the management in maintaining the sales level. Actually, there is a slowdown in the growth rate of the sales in case of such matured products. The company may well adopt a three-pronged strategy 1) market modification, 2) product modification, and 3) marketing mix modification.

- 1) Under **Market Modification**, the company stresses to unearth opportunities by finding new buyers. It can be done by looking for new markets/new market segments. Alternatively, you can find new ways of using the same product. Otherwise, you may re-position the product and concentrate your promotional efforts in a new/growing market segment. In this way, you can improve the market share.
- 2) The product, by now, has become stereotyped. There is need to come out of this stagnant picture. This can be done by well thought out changes in product characteristics to attract new customers or more usage by existing customers. **Product Modification** can be brought about by improving the quality or features or style of the product.
- 3) A company tries to stimulate sales during the maturity stage by **modifying the marketing mix** strategies. It can assume any of the following forms: 1) reduce price to attract new customers, 2) develop more affective advertising campaign, 3) aggressive promotion characterised by trade deals, gifts, contests and freeships, 4) offering new or improved service to the buyers, and 5) offering more incentive to channel members.

Declining Stage

When a Product moves into the decline stage, we need to adopt different types of strategies. The decline may be slow or rapid. It may be due to better substitute, products, better competition, technological advances with which we have not kept up and several other reasons. Such a product now proves expensive for the organisation. One must, therefore, be willing to consider the elimination of such marginal or unprofitable products. It requires constant monitoring and review of sales volume from each market segment. This is essential to decide about total withdrawal from those areas where operations become uneconomical and the market cannot be stretched any more. Thus, management is faced with the problem of considering total/partial abandonment of the product. Using resources of the organisation in chasing unproductive pursuits is not good for the company. For a company, product withdrawal is as important as product introduction. Ultimately unprofitable product has to pave the way for a new product.

Check Your Progress B

- 1) What is product life cycle?
- 2) List out the stages in a product life cycle.
- 3) Identify at what stages of their respective product life cycle are the following products in Indian market context.

Product	Stage
i) Smart Televisions
ii) Manual Typewriters
iii) Steel Furniture
iv) Computers

- 4) Try to identify at least two products in each stage of product life cycle in Indian market.
 - i) Introductory Stage:
 - ii) Growth Stage:
 - iii) Maturity Stage:
 - iv) Decline Stage:
- 5) Identify four new products which failed in the market.
- 6) State whether the following statements are **True** or **False**.
 - i) At the introductory stage the company may incur losses.

- ii) Rate of increase in the sales volume is higher in introductory stage compared with growth stage.
- iii) Company profits start increasing rapidly in the growth stage.
- iv) Competitors start entering the market in growth stage.
- v) The sales reach a plateau in maturity stage.
- vi) The strategy of market modification is adopted in growth stage/in saturation stage.
- vii) Product may be modified to attract new customers and, thus, improve sales.

6.7 LET US SUM UP

Product innovation means offering a new product or an existing product with some change or modification. New product introduction is important because: 1) firm cannot simply rely on present product mix for a long time to come, 2) increasing competition to cut into the market share enjoyed by the company. 3) better utilisation of company resources, 4) new products add to the overall profitability of the organisation, and 5) changing tastes and needs of the consumers.

The process of new product development consists of seven stages: 1) idea generation, 2) idea screening, 3) concept development and testing, 4) product development and marketing strategy development, 5) business analysis, 6) market testing, and 7) commercialisation. The purpose of each stage is to decide whether the idea should be further developed or dropped. In this process the company aims at minimising the chances of poor ideas moving forward and good ideas being rejected.

Even after careful screening at each and every stage of product development process, many products fail after introduction in to the market. This is mainly due to the problems associated with product, distribution channel, promotion, pricing, competition and timing of the introduction.

Like human beings, products also have life cycle. A product life cycle (PLC) consists of four stages: 1) introduction, 2) growth, 3) maturity, and 4) decline.

The time taken for transit from one stage to the next varies with each product, the company and the timing of introduction of the product. Similarly, the profit curve also varies from product to product and the stage of PLC.

Introductory stage is marked by slow growth and low profits (even losses), as the product is just pushed into distribution. Heavy promotional and distribution emphasis is needed and heavy expenditure is incurred at this stage. When the product enters growth stage, sales and profits increase rapidly, customers are aware of benefits provided by the product and middlemen show interest to distribute the product. With the rise in demand, competition increases in size and numbers. New features are added to the

product to make it more attractive, price is either maintained or is slightly reduced, and promotional tempo is sustained or even raised. During maturity and saturation stage, competition intensifies and profit margin declines. There is a need to increase advertising, reduction in prices and offer more incentives to distributors. Product improvements are restored to and cost economies are thought of to arrest the trend of decline. At the decline stage, sales and profits decline rapidly, while new and better products enter the market. Companies tend to cut back on promotional expenditure, unless considered essential to revitalise the product. The company has to take the sad decision of withdrawing the product from the product line

6.8 KEY WORDS

Decline Stage: A stage in the product life cycle where the sales and profits shoot down.

Fads: Novelty products that come quickly to the public eye and are lost fast. Here the product life cycle is very short.

Fashion: A style which is currently accepted but is likely to change, as fashions move in a cycle and change over a period of time to return to the original. For example, a woman's skirt gets longer and longer until it can get longer no more. It then goes upward as fashion moves in a cycle.

Growth Stage: A stage in the product life cycle when the sales and profits increase rapidly for the organisation.

Introduction Stage: A stage in the product life cycle where the product is just introduced and is at the beginning of the product life cycle. This is evidenced by slow growth and very small profits.

Market Testing: A stage in the product development where the product is actually tested in the market, that is, introduced in a consumer setting with a view to ascertain the reactions of consumers and dealers before a final decision to market or launch the product is made.

Maturity Stage: A Stage in the product life cycle where the sales stop going up and slow down because competitors have entered the market and it becomes difficult for a continuous increase in the sales.

New Product: A product that opens up an entirely new market, replaces an existing product or significantly broadens the market for an existing product.

Product Life Cycle: Refers to the stages a product goes through from its introduction, through growth and maturity, to its eventual decline and death.

6.9 ANSWERS TO CHECK YOUR PROGRESS

- | | | | | | | |
|---|---|-----------|------------|-------------|-----------|---------|
| A | 3 | i) True | ii) False | iii) False | iv) False | v) True |
| | | vi) False | vii) False | viii) False | | |

- B 6 i) True ii) False iii) True iv) True v) True
vi) False vii) True

6.10 TERMINAL QUESTIONS

- 1) What do you mean by product life cycle? Discuss the various stages in the life cycle of a product.
- 2) How can a company develop new products? Discuss the process with example.
- 3) Why are the generation, screening, and analysis of ideas the most important steps in new product development?
- 4) Give some examples of products you regard as being in the:
 - a) Introductory stage
 - b) Decline stageGive reasons for your conclusion.
- 5) Explain briefly the 'product life cycle concept' in marketing management and state why do you feel it is useful to understand this concept.
- 6) Explain how the marketing mix has to be changed during the different stages of the product life cycle?
- 7) Selection and development of a new product are very important steps in the marketing strategy. Explain briefly the stages through which you would test ideas coming up for new products until the final stage of launching the new product.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

UNIT 7 BRANDING AND PACKAGING

Structure

- 7.0 Objectives
- 7.1 Introduction
- 7.2 Branding
 - 7.2.1 Meaning and Importance
 - 7.2.2 Advantages and Disadvantages
 - 7.2.3 Branding Decisions
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- 7.3 Packaging
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- 7.4 Let Us Sum Up
- 7.5 Key Words
- 7.6 Answers to Check Your Progress
- 7.7 Terminal Questions

7.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the terms branding and packaging;
- narrate the alternative approaches in branding products;
- describe the various functions of packaging; and
- state important legal requirements affecting packaging decisions.

7.1 INTRODUCTION

You have already studied certain aspects of product mix i.e. definition of product, classification of products, product line strategies, new product development process and product life cycle. Besides the basic product design, the way in which a physical product is presented to potential customers is known as product presentation which is very much part of product itself. Branding and packaging are the two major aspects relating to product

presentation. In this unit, we will discuss in detail about branding and packaging. You will learn the meaning and importance of branding, advantages and disadvantages of branding, and the process of selecting a brand name. You will also study the meaning and importance of packaging, functions of packaging and the legal dimensions of packaging.

7.2 BRANDING

7.2.1 Meaning and Importance

Most consumer products and many industrial products need brand name. The brand name helps a consumer in instant recall and this serves an important function for differentiating competing products of similar nature. A crucial step in the branding strategy is deciding on a specific brand name for the product that is being introduced. In the earlier times when the concept and practice of branding was much less developed, very often the family name/surname was used. Some of these are still very much alive for example, Siemens or Ford. The other common method of branding was by way of addressing the product range of the company. Two famous examples are General Motors and General Electricals. It seems the function that brand was supposed to perform either to indicate the source or the origin of the product (family name) or indicate the product range. However, a brand name has emerged one of the most important elements of the merchandising function in the recent times and will become more and more crucial as the competition becomes more severe in India. Let us understand, what is the conceptual meaning of the term brand and brand name?

Brand: Brand is a name, word, mark, symbol, device or a combination thereof, used to identify some product or service of one seller and to differentiate them from those of competitors. The definition clearly focuses on the function of a brand, that is, to identify, irrespective of the specific means employed for the identification.

Brand Name: Brand name is that part of a brand consisting of a word, letter, group of words or letters that can be vocalized. Comparing this definition with that of a brand, it is found that the function remaining the same, brand name is only one of the means that the brand can use for identification. Brand name is a word or a combination of words/letters that is pronounceable, e.g., **Colgate** toothpaste, **Dove** soap, etc.

Brand Mark: Sometimes you must have also heard the word brand mark. Since brand name is used in identification of a product amongst a competing set, it is necessary that each brand must have only a unique identity. This brings in the concept of brand mark. *A brand mark is a symbol used for the purpose of identification. It can be a mark, a design, a distinctive logo type or a colouring scheme a picture etc.* In other words, it is not a name but a means of identification. For example, picture of an elephant in a distinct frame used by the Department of Tourism, Government of India or the

famous star-circle of Mercedes Benz car, or T in circle which you must have seen on buses and trucks made by TELCO.

Brand Name Versus Trade Mark

Quite often, brand name and trade name are used synonymously. In fact there is difference between these two terms. A trade mark is the legalised version of a brand. Brand falls under the category of industrial property rights and, therefore, subject to certain rules and regulations. It can be registered and protected from being used by others. *The American Marketing Association defines a trade mark as a brand that is given legal protection because, under the law, it has been appropriated by one seller.* **Therefore, we can define a trade mark as a brand or a part that is given legal protection because it is capable of exclusive appropriation.**

Thus, trade mark is essentially a legal term. All trade marks are brands, but a brand can be called as a trade mark only when it is legally protected and has been appropriated by one seller. As all trade marks are brands, a trade mark may include words, letters or numbers that can be pronounced and also may include pictorial design (brand mark). **When a brand is registered, it becomes trade mark and such trade mark is shown by displaying the letter R enclosed in a circle, shown as ®**

Check Your Progress A

Select five durable goods and five non-durable goods in your house. Identify the brand name, brand mark and trade mark notice ®

Brand Name	Brand Mark	Trade Mark Notice ®
Durable Goods		
1)
2)
3)
4)
5)
Non-durable Goods		
1)
2)
3)
4)
5)

7.2.2 Advantages and Disadvantages

Advantages and Disadvantages of branding can be analysed from three different standpoints of buyers, sellers, and society. Let us discuss them now.

Advantages: Buyers, sellers and the society as a whole may derive the following advantages from branding:

Buyers: The buyers can derive the following advantages:

- 1) A brand generally denotes uniform quality.
- 2) It makes shopping easier.
- 3) Competition among brand can, over a period of time lead to quality improvements.
- 4) Purchasing a socially visible brand can give psychological satisfaction to the buyer.

Sellers: A marketer can also derive following advantages:

- 1) It helps in product identification.
- 2) In a highly competitive market, it can carve out a niche for itself through product differentiation.
- 3) If brand loyalty can be developed through successful promotion, the firm will be able to exert quasi-monopolistic power.

Societal View: From a macro-standpoint, a brand's role in improving and maintaining product quality can be considered as positive. Brands also help in better dissemination of product knowledge. Better product knowledge can contribute to more scientific and rational decision making among buyers. This will result in rational allocation of scarce resources which ultimately leads to overall welfare of the society.

Disadvantages: Branding has the following disadvantages to the buyers, sellers and the society as a whole:

Buyers: Branding has the following disadvantages to the buyers :

- 1) Since brand development costs money, product prices tend to go up. This may lead to higher prices to consumers.
- 2) Taking advantage of the popularity of a brand, a manufacturer may reduce quality gradually.

Sellers: To obtain the advantages, the sellers have to spend money for developing and promoting brand name. It increases the cost of production which ultimately leads to higher prices. Once the price is higher, seller may find it difficult to achieve the targeted sales.

Society: Expenditure on promotion of a brand is considered as a social waste. Such wasteful expenditure will increase the cost of production and thus

higher prices. This is not considered as good from the society point of view. It is also felt that consumers become loyal to established brands and may not be willing to shift to new brands. This may ultimately prevent the new producers from entering the market.

7.2.3 Branding Decisions

Branding has emerged as one of the most important activities in the area of marketing of products especially consumer products. Several decisions need to be taken, though not simultaneously, with regard to brand selection and its use. The following questions are to be answered in the process of selecting the brand name:

- 1) Should the product be branded at all?
- 2) Who should sponsor the brand?
- 3) What quality should be built into the brand?
- 4) Should each product be individually or family branded? Should other products be given the same brand name?
- 5) Should two or more brands be developed in the same product category?
- 6) Should the established brand be given a new meaning (repositioning)?

Let us consider each of these issues in detail :

- 1) Whether to brand a product or not is a decision which can be taken only after considering the nature of the product, the type of outlets envisaged for the product, the perceived advantages of branding and the estimated costs of developing the brand. Historically, it is found that brand development is closely correlated with the increase in disposable income, the sophistication of the distribution system and the increasing size of the national market. The same trend is visible in India now.

Even few years back, nobody could have thought of selling branded rice or refined flour. But now several firms in the recent past have become successful even in such product categories. The basic reason is that the consumers are willing to pay more for uniform and better quality product represented by the brand. When customers buy a branded product, they get the same quality in whichever retail shop they buy. Many other commodities, such as spices are also now being branded. There is no doubt that this trend will become stronger in the coming years.

- 2) The question of sponsorship of a brand refers basically to the decision as to whether it should be a manufacturer's brand (also known as a national brand) or a private brand (also known as a middleman's brand) or partly manufacturer's brand and partly private brand. In most developed countries where large chain/departmental stores dominate the retail distribution system, retailers buy the products from manufacturers and sell under their own brand. This is however, largely a hypothetical

question in India, where retail distribution system was highly fragmented. These days the distribution system has improved. The Super Bazars have started marketing a few products which are specially packed and sold under their names. However, if outlets of Super Bazars, Mother Dairy and National Consumers Co-operative Federation increase in sufficient numbers, it is possible that private brands will also flourish in future. Some retailers' brand names in the product categories of sarees and car accessories have already been established.

- 3) A very crucial decision is with regard to the quality and other attributes to be built into the product. The matrix of such attributes will decide the product positioning. A marketer has the option to position his product at any segment of the market; top, bottom or the intermediate. For example, Surf Excel and Ariel are positioned as a premium quality and high-priced product. At the other end of the scale, Nirma and Tide is positioned as low-priced, while products such as Rin is somewhere in between.
- 4) You have to decide whether to adopt a family brand or individual brand. Under **family branding** all the products get the same brand name. For example, Videocon, L&T and Kissan follow this policy. Under the **individual branding**, each product is given a different name. For example, Hindustan Unilever sells its products under different brand names.

One basic **advantage of using the family brand** is that it reduces the costs of product launching and promotional expenditure substantially. The firm has to promote only one brand which, if successful, would be able to sell the entire product line. Lining up the distribution channel members also becomes comparatively easier. A family brand name has been found to be very cost effective in tyre marketing. If one product does exceptionally well, other products marketed under the same brand may have positive impact.

It is, however, **necessary to be cautious in following family branding**. It will be a very ill-advised strategy if the products being offered are of highly uneven quality. It may not also be a good strategy if the markets are quite dissimilar in terms of consumer profile. A greater weakness of this strategy is that it does not recognise that each product can be given a specific identity by a suitable brand which can go a long way to make it successful.

The weakness of family branding becomes the principal strength of individual branding strategy. Recent consumer researchers have established that a name can have varied associations and conjure diverse images. These psychological factors can immensely influence the buying decisions. Individual brand strategy is in a position to take care of this aspect of marketing. The second advantage of this strategy is that if there

is a product failure, its damaging effect will be limited to that particular product only and will not extend to the entire product line.

The **basic disadvantage of individual branding** lies in the economics of developing an individual brand. It is obviously a costlier strategy than the other. The other disadvantage is that the brand does not directly derive any benefit from the reputation of the firm.

To take care of these problems, some firms follow a slightly modified strategy. This involves using individual brands but also giving prominence to the company name or logo in all promotional campaigns as well as in product packaging. For example, TOMCO follows individual brand strategy but displays prominently the words “**A TATA PRODUCT**”. In many cases a brand extension strategy is adopted. This really is **an effort on the part of the manufacturer to secure additional mileage from a particularly successful product for launching either similar or even dissimilar product under the same brand.** Under this strategy the brand name is of the same product which the manufacture uses to become successful in boosting the sales of the new product. The successful example is the decision to introduce **Maggi** to capitalise on the image of Maggi range of success brand of noodles.

- 5) A firm may decide several brands of the same product which to some extent are with each other. The basic reason is that, at least in the consumer products, various benefits and appeals and even marginal difference between brands can win a large following.
- 6) **Brand Repositioning:** Over the life cycle of a product, several market parameters might undergo a change such as introduction of a competing product, shifts, in consumer preferences identification of new needs etc. All and each of such changes call for a relook as to whether the original positioning of the product is still optimal or not. Stagnating or declining sales also point to a need for reassessment of the original product positioning. For example, Thumps Up had positioned several times, from the young to the professionals to the kids and back to the young.

7.2.4 Selecting a Good Brand Name

Finding an appropriate brand name for a new product is a tricky job, basically for two reasons - Firstly, the name should be one which satisfies several marketing criteria, some of which are discussed below. Secondly, the name should not be one which is already being used by another firm. This necessitates extensive investigations.

There is no simple solution to the problem of selecting a brand name. However, through extensive research and past experiences, market researchers have developed certain principles which should be followed while selecting the brand name. While selecting a brand, one should see that the brand accomplish the following features.

- 1) A brand name should reflect directly or indirectly some aspect of the product, viz. benefit, functions, etc. For example, the name '**Burnol**' immediately connotes that the product has to do something with burns.
- 2) A brand should be distinctive, especially if the product requires such distinction. For example, a name like '**Chancellor**' for a cigarette conjures up ideas of status, power and opulent life style.
- 3) A brand name should be easy to pronounce and remember. Examples are **Vimal, Hamam** etc.
- 4) It should be such that it can be legally protected, if necessary.

A firm invests substantial amount of money on a brand. It should therefore, ensure that nobody else takes advantage of the brand illegally. But, there is no fool-proof system for trade mark protection. However, the steps outlined below can be of a great help for protecting the trade mark.

- 1) Use the generic name of the product in association with the trade mark. An example is **Pearlpet** where PET is the acronym for generic technical product i.e. Polyethylene Terephthalate while Pearl is the brand associated.
- 2) Designate the brand name as a trade mark by actual notice. If the brand name is registered, the proper form of notice is the letter R enclosed in a circle.
- 3) Display the mark with some form of special graphic treatment. A trade mark is not a noun. Therefore it can be capitalised. It will be better if it can be printed in some distinctive logotype.
- 4) Do not use the trademark in the wrong grammatical form. It should not be used as a noun, verb, in the plural, or in the possessive.
- 5) It should not be altered by additions or abbreviations.
- 6) Use the trade mark for a line of products.

7.2.5 Registration of Trade Mark in India

In India, trade and merchandise marks are registered under Trade Marks Act (1999). The owner of the trade mark has the right to its exclusive use and provides legal protection against infringement of his right. If the mark is registered it is displayed along with the brand by the letter 'R' enclosed in a circle® A trade mark is registered for a maximum period of ten years and is renewable for a similar number of years, each time the period of ten years expires. Further, no such trade mark should be used which is likely to be descriptive or confusing, or is scandalous or obscene, or which hurts the religious sentiments of the people of India.

Check Your Progress B

- 1) Differentiate between family branding and individual branding.
- 2) List four brand names which express the function of the product.
- 3) List four brand names where manufacturer's name is associated.
- 4)
 - i) Write five family brand names and analyse the product sold under each of these brands.
 - ii) Prepare a list of five companies which follow individual branding strategy and identify their products.
 - iii) Based on 4(i) and 4 (ii) above, analyse what kind of products have family and individuals brands.
- 5) State whether the following statements are **True or False**.
 - i) It is compulsory to register the brand name in India.
 - ii) Brand mark and trade mark are one and the same.
 - iii) A brand generally denotes a uniform quality.
 - iv) Branding helps in product identification.
 - v) From the society point of view, branding is always a waste.
 - vi) Trade mark can be copied by another manufacturer.
 - vii) A good brand is one which is easy to pronounce.

7.3 PACKAGING

7.3.1 What is Packaging?

Packaging is a very important function as most of the products offered in the market need package. Some marketers even call packaging a 'fifth P' along with promotion and physical distribution. As stated earlier, however marketers consider packaging as an element of product mix.

Packaging has been defined in both technical and marketing literature. One of the most quoted definitions of *packing is the art, science and technology of preparing goods for transport and sale*. This definition brings out two salient aspects of packaging. These are:

- 1) It has to help in the physical transportation and sale of the products packaged.
- 2) Packaging as a function consists of two distinct elements, (i) the positive aspects, viz. the science and technology related to package design, selection of packaging materials, etc., and (ii) the behavioural aspects, viz., the art of product design which is associated with consumer motivation research, buying research, etc.

The last aspect has been highlighted in another definition of packaging. *"Properly designed, the package should enhance the value of its contained product, and impart that impression, either directly or subtly, to the customer."* The role of packaging in value enhancement is increasingly becoming important in consumer marketing today.

In marketing, packaging is defined as the activities of designing and producing the container or wrapper for a product. The container or wrapper is called 'package'.

According to Philip Kotler and Gary Armstrong, the packaging may include up to three levels of material. The **primary package** is the products immediate container. If you take a shaving cream, the tube holding the shaving cream is the primary package. The **secondary package** is the material that protects the primary package and that is thrown away when the product is about to be used. The hard paper box containing a shaving cream tube is the secondary package. The **shipping packaging** is the packaging necessary to store, identify and ship the product. A big cardboard box in which several shaving cream tubes are packed is the shipping package. Finally, *labelling is a part of packaging and consists of printed information appearing on or with the package.*

Packaging Industry

An understanding of the packaging industry is necessary to fully appreciate the packaging revolution that has occurred in the consumer and industrial goods sectors. The packaging industry consists of primarily two distinct segments: 1) firms which manufacture the packaging materials, viz., tin, paper, plastics, etc., and 2) firms engaged in the formation of packaging. i.e., converting the packaging materials into unit/master packages. In addition there are other firms engaged in the printing of labels to be used in the unit/master packages, and the marketing research agencies which conduct specialised packaging research, generally for package development and adaptation.

Newer materials are constantly emerging in the packaging field and in many cases have eliminated or threatened the older materials, such as wood and steel, because of the relative cost advantage or better performance characteristics.

The important packaging materials today are:

- 1) Metals -- Aluminium, Tinplate and steel
- 2) Plastics -- PVC, HDPE, etc.
- 3) Wood -- Wood and cellulose film
- 4) Paper -- Paper, board, corrugated board, etc.

- 5) Glass -- Clear, tinted, etc.
- 6) Laminates -- Aluminium foils, plastic film, etc.
- 7) Polyester -- PET

In line with the diversified packaging materials, the packaging formation has also undergone a revolution. The unit packages of consumer goods consist of bewildering variety. The master cartons in which the unit packages are packed are, however, getting increasingly standardised, especially due to the necessity of using containers in order to facilitate physical handling and shipment as well as to reduce packing costs and loss/damage to the goods during transit.

7.3.2 Functions of Packaging

Packaging should perform the following basic functions: it should (1) protect (2) appeal, (3) perform, (4) offer convenience to the end-users, and (5) cost-effectiveness. Let us learn them in detail.

Protection

The primary function of packaging is to protect the products from the environmental and physical hazards to which the product may be exposed in transit from the manufacturer's plant to the retailer's shelves and while on display on the shelves. The specific types of hazards against which protection has to be sought would obviously vary from product to product. However, the principal hazards which are almost universal are:

- 1) Breakage/damage due to rough mechanical or manual handling during transportation.
- 2) Extremes of climatic conditions which may lead to melting, freezing, etc.
- 3) Contamination, either bacterial or non-bacterial, such as by dirt or chemical elements.
- 4) Absorption of moisture or odours of foreign elements.
- 5) Loss of liquid or vapour.
- 6) Pilferage during transit or storage.

Appeal

The package is increasingly being used as a marketing tool, especially in certain types of consumer products such as perfumes or several other gift articles. The importance is also increasing due to the changed structure of retail business, especially the emergence of self-service stores.

In the case of consumer products, package serves as a silent salesman. This is true irrespective of whether the product is a luxury, semi-luxury or an ordinary everyday use product. The following characteristics have been identified to help a package perform the self-selling tasks:

Product

- 1) The package must attract attention.
- 2) The package must tell the product story.
- 3) The package must build confidence.
- 4) The package must look clean and hygienic.
- 5) The package must be convenient to handle, to carry out, to store and to use.
- 6) The package must reflect good value.

Packaging, however, is of greater importance in the case of certain specific types of articles. Industry-wise studies in several countries show that packaging costs in the cosmetics industry are much higher than other industries. This excessively high incidence is not due to the packaging which is required for the protective function but for making the product attractive, a status symbol and ego-satisfying. Other products such as chocolates in gift packs are also instances where packaging performs a basic marketing function by making the products more appealing.

Consumer research on packaging has basically concentrated on two aspects which are presumed to have an influence on consumer purchase decisions. The first one is colour and the second is the package or container design. Almost all researchers have come to the conclusion that each colour has its own distinct characteristics and therefore, has to be used in a package so that there is no mismatch between what is expected of the package and the colour used in the packaging.

One additional problem in this area is that people in different countries display divergent colour preferences, due to their diverse socio-cultural-religious backgrounds. Similarly, research has been carried out on the desirable properties of a container. Slender and cute containers are often used for beauty-care product for the feminine sex, as these are expected to create an appropriate image of the product. Graphics and Logo types are also important in designing and conveying the total product image,

Performance

This is the third function of a package. It must be able to perform the task for which it is designed. This aspect becomes crucial in certain type of packaging. For example, an aerosol spray is not only a package but also an engineering device. If the package does not function, the product itself becomes totally useless.

Convenience

This package must be designed in a way which is convenient to use. The important point to be appreciated, however, is that it should be convenient not only to the end users but also to the distribution channel members, such as wholesalers and retailers. From the standpoint, the convenience will relate

to handling and stocking of packages. The specific attributes they would seek in a package in this context are:

- i) The package must be convenient to stock.
- ii) The package must be convenient to display.
- iii) The package does not waste shelf-space.
- iv) The package must retain its looks during the shelf-life.
- v) The master packages/cartons should be easy to dispose of

These days the last factor has been gaining importance due to increasing concern with solid-waste disposal. This, however, becomes a matter of importance while deciding on the transport packaging for export markets.

From the standpoint of the domestic or institutional end users, the convenience would refer to the ease of using the package, such as opening and closure of the package, the repetitive use value, disposability, etc.

Cost-effectiveness

The package finally must be cost-effective. Packaging cost as a percentage of product cost varies dramatically from one industry to another, from less than one per cent in engineering industry to more than 10 per cent in the cosmetics industry. It is important to appreciate that while analysing packaging costs, it is not enough to consider only the costs of package. This is only one, component. The most important element is the total costs associated with packaging.

Cost in this chain consists of:

- i) Package costs incurred in inward delivery to the factory when the product is purchased from outside.
- ii) Storage and handling costs of the empty packages.
- iii) Filling costs, including quality control and handling of filled packages.
- iv) Storage costs of the filled packages.
- v) Transport cost for distributing filled packages.
- vi) Insurance cost for the transit period.
- vii) Losses due to breakage/spoilage of the product.

7.3.3 Criticism of Packaging

Packaging is also subject to severe criticism because of the following reasons:

- 1) After consuming the product, consumers throw-away the containers in public places causing environmental problems. How to dispose of used containers is one of the major problems.

- 2) Scarce raw materials are consumed for the manufacture of containers. This depletes our natural resources. However, this criticism is offset as more and more recycled materials are used for packaging.
- 3) Packaging increases the product cost and this leads to higher prices to consumers. But it is argued that effective packaging reduces the transport costs and the losses due to spoilage. The benefits so derived may offset the cost of packaging.
- 4) Health hazards occur from some forms of plastic packaging and some aerosol cans.
- 5) It is also felt that sometimes packaging is deceptive. Customers may feel that the product inside is of good quality due to attractive packaging. Products of poor quality may be packed in attractive containers to catch the attention of customers.

Check Your Progress C

- 1) Distinguish between packaging and labelling.
- 2) What are the basic functions of packaging?
- 3) State whether the following statements are **True** or **False**.
 - i) Protection of the product is the only function of packaging.
 - ii) Package should also be capable of attracting the attention of buyers.
 - iii) Colour of the package does not have any importance.
 - iv) Packaging always increases the product cost.
 - v) Package must be designed in a way it is convenient to users and middlemen.

7.3.4 Packaging Strategies

Product package often plays an important role in implementing sales promotion campaigns. Promotion is defined as a short-term special measure to boost sale of a specific product. There are several accepted promotional packaging techniques. Some of these are :

- 1) **Money-off Pack:** A 'flash' in distinctive colour is superimposed on the package announcing the special price discount being offered. This is the most widely used form.
- 2) **Coupon-pack:** A coupon of a certain value, either as a part of the package or placed separately in the package, can be redeemed after the purchase of the product.
- 3) **Pack-in-Premium:** A premium, i.e., the gift is packed within the original product package, viz., a handkerchief in a cosmetic product package.

- 4) **Premium-package:** A specially made package having either a re-use or prestige value is referred to as premium package. Instant coffee packed in glass tumblers having closures is an example of the first type. The set of audio cassettes presented in a specially designed wooden box is an example of the second type.
- 5) **Self-liquidator:** The buyer has to send to the company a number of packages or part thereof as evidence of buying the product. In return, he may purchase additional quantity of the same product at reduced prices or be rewarded with a different product. Several companies in India, in the processed foods and beverages industry, occasionally use this technique.
- 6) **Changing the Package:** Introduction of a new package can also be used as a promotional technique. For example earlier, edible oils were packed in tin cans in India which looked messy and dirty. Most of the larger firms have been using transparent one litre PET (polyethylene terephthalate) bottles which look gleaming and fresh. The companies are using this change of packaging quite effectively as an additional element in their advertising campaigns. Initially, Panama cigarettes were introduced in a soft packet of twenty for the first time in India. The instant popularity of the brand was substantially due to this novelty. ***The strategy of package changes is followed either to correct a poor feature in the existing container or to take advantage of new materials.***
- 7) **Odd Size Packaging:** Packaging can also be used ingeniously to avoid direct price comparison with the competing products. This is done by a deliberate choice of odd size, while the competing brands follow a standard size. In India Maggi Ketchup was introduced in the market in 400 grams bottle, while the industry-wise standard size was 500 grams bottle.
- 8) **Packaging the Product Line:** Packaging can be used to develop a family resemblance in the packaging of its several products. Identical packages or the packages with some common line. This kind of packaging strategy had the benefits of family branding. **Under this strategy, when new products are added to a line, promotional values associated with old products extend to the new ones.**
- 9) **Multiple Packaging:** Placing more than one unit in one container is referred to as multiple packaging. This packaging strategy increases the sales to a large extent.
- 10) **Other Applications of Packaging as Marketing Tool:** There are several other innovative ways in which the packaging can be used for achieving higher sales. The area of processed foods the shelf-life of the product is an important consideration. Any firm which can guarantee a higher shelf-life would be one-up on its competitors. Indian company, Tasty Bite Eatables which is in the area of frozen and pre-cooked foods,

identified the 18 months shelf-life of its products as the major strength. The increased shelf-life is to a large extent due to better packaging.

7.3.5 Legal Dimensions

While managing the packaging function, constant attention needs to be given to the various regulations that the government has laid down in this respect. Government regulations are many and encompass areas such as the use of a specific packaging material for certain products, consumer protection, transportation of hazardous cargo etc. The most pervasive among these is the regulation relating to the information a manufacturer is obliged to provide in the package itself on the product. This is commonly known as labelling requirement and covers a host of commodities. Principal among these are food products, cosmetics, pharmaceuticals, etc.

Label is defined as a display of written, printed or graphic matter on the container or the package of the container.

A label need not be only a fulfilment of legal requirement. In fact, properly conceived, a label can be an important sales instrument. Since a label is the nearest source of information on a product, a buyer who otherwise may be ignorant of the product or loyal to a different brand, can be persuaded to read the label, and may in fact try the product, even if he had no such premeditation. This is especially true of purchase made in super markets or departmental stores.

A good label is one which helps a potential buyer to make his decision by providing relevant and correct information. Apart from the information which must be statutorily given, the label should therefore provide:

- i) Picture of the product, accurate as to size, colour and appearance.
- ii) Description of raw products used along with methods of processing.
- iii) Directions for use, including cautions against misuse.
- iv) Possible adverse effects, if any.
- v) Brand name.

Statutory requirements relate generally to:

- i) Net weight, when packed.
- ii) Date of manufacture.
- iii) Date of expiry, if any.
- iv) Maximum retail price including or excluding local taxes,
- vi) Directions for use including dosage requirements.
- vii) Directions for storage.

Check Your Progress D

- 1) What is multiple packaging? Give two examples.
- 2) What are the basic purposes of changing the package?
- 3) What is the objective of odd size packaging? Give two examples where this is adopted.
- 4) Given below is a list of products along with their old and new types of packaging

For each of the product category which is the best packaging form in your opinions. State the reasons.

- i) Edible oil (a) in tin (b) in HDPE Polyjar and (c) transparent PET jar
- ii) Vanaspathi/ghee (a), in tin and (b) in plastic pouch
- iii) Fruit Juice (a) in bottle, (b) in tin and (c) in tetra pack (e.g., Frooti)
- i) Shampoo in (a) glass bottle and (b) plastic bottle

7.4 LET US SUM UP

Brand management is one of the most important areas of marketing especially with reference to consumer products. The name gives the product its unique personality and is so well associated with the product that the brand name sometimes even takes the place of the generic product name. Branding has certain advantages and disadvantages to the buyers, sellers and the society as a whole.

The selection of brand name is an important decision. You can choose any brand name you like as long as it is unique, easy to read, write, pronounce and remember, and does not have any unfavourable or negative meanings associated with it. You may choose a common family brand name for all your products or give each product its own distinctive brand. Each choice has its advantages and disadvantages and there are enough cases of success and failure to justify your choice. Sometimes even the most difficult sounding brand names succeed while catchy and simple brand names fail. In India trade and merchandise marks can be registered under Trade and Marks Act, (1999) to get legal protection for exclusive use.

Packaging is another crucial aspect of marketing which plays an important role in determining the success of a product because implications of packaging decision are obvious since the customer confronts it face-to-face. There are so many instances of good products having failed because of poor packaging.

The Indian market is today flooded with exciting new types of packaging material which have replaced the traditional packages. These new packaging materials have made it possible to market products such as potato wafers,

snacks, and other fragile food items. Good package must protect the contents stored inside it, be attractive to the customer, be convenient to handle, store and use and perform the functions required of it. Some people are very critical of packaging because of the problems involved in the disposal of used packages, cost of developing packages, health hazards, usage of scarce resources, and possibility of misleading about quality of the product.

7.5 KEY WORDS

Brand: A name, word, mark, symbol device or a combination thereof, used to identify some product or service of one seller and to differentiate them from those of competitors.

Brand Name: That part of a brand consisting of a word, letter, group of words or letters that can be vocalised.

Brand Mark: That part of a brand consisting of a mark, design, distinctive logo type, colouring scheme or picture used for the purpose of identification.

Family Branding: A branding strategy in which a group of products is given a single brand. It is also called blanket branding.

Label: Part of package and consists of printed information appearing on or with the package.

Packaging: The activities in product planning that involve designing and producing the container or wrapper for a product.

Trade Mark: A brand or a part that is given legal protection because it is capable of exclusive appropriation.

7.6 ANSWERS TO ANSWERS TO CHECK YOUR PROGRESS

B	5	i) False	ii) False	iii) True	iv) True	v) False
		vi) False	vii) True			
C	3	i) False	ii) True	iii) False	iv) False	v) True

7.7 TERMINAL QUESTIONS

- 1) Identify the basic factors that prompt a company to brand its products. Select any well-advertised brand of your choice and define the personality of that brand.
- 2) What are the brand strategy options open to a firm? Discuss their relative strength and weaknesses.
- 3) Select a branded consumer product of your choice. Analyse in detail the factors that have contributed to its success.

- 4) Do you consider branding to be of identical importance in marketing (a) industrial products, (b) consumer products, and (c) agricultural products? Give five supportive arguments.
- 5) Sometimes even a well-established company tries to promote only the individual brand and keep its own name as inconspicuous as possible. Can you explain this strategy?
- 6) One marketing expert strongly urged every manufacturer to adopt a 'nonsense word' as the brand. What can be the reason for this recommendation?

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

SOME USEFUL BOOKS

Indira National Open University School of Management Studies. 1989, Marketing For Managers MS-6, Marketing Indira Gandhi National Open University :New Delhi (Units 11-13)

Kotler, Philip, Gary Armstrong. 1987. *Marketing An Introduction*, Prentice Hall, Englewood Cliffs. (Chapters 9 and 10)

Neelamegham, S. 1988. *Marketing in India Cases and Readings*, Vikas Publishing House : New Delhi, (Chapters 36-41)

Sherlekar, S.A. 1984. *Marketing Management*, Himalaya Publishing : New Delhi (Chapters 12 and 13)

Stanton, William, J., and Charles Futrell. 1987. *Fundamentals of Marketing*. McGraw-Hill : New York. (Chapters 9-11)

Block

3

PRICING

UNIT 8

Objectives and Methods

UNIT 9

Discounts and Allowances

UNIT 10

Regulation of Prices

UNIT 8 OBJECTIVES AND METHODS

Structure

- 8.0 Objectives
- 8.1 Introduction
- 8.2 Role and Importance of Price
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 - 8.3.1 Price-oriented Objectives
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8.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning of price and its role and importance as an element of marketing;
- explain the objectives of pricing;
- describe the factors which affect the price determination; and
- identify the general methods of price determination and explain their comparative merits and limitations.

8.1 INTRODUCTION

After completing the product planning, the next step is to finalise the pricing policies and strategies. Pricing is a very important aspect in the marketing as it directly affect the sales and profits of the company. Hence, you should be very careful while deciding the price. The first task in pricing is to determine the base price for the product, including the decision on pricing objectives. This unit is mainly concerned with this aspect of pricing. In this unit, we will discuss the meaning and importance of price, objectives of pricing, factors influencing the pricing decisions and basic methods of price determination.

8.2 ROLE AND IMPORTANCE OF PRICE

Every day we buy several things from the market. We pay some money for the product we buy. The money paid by us in exchange of the product is known as the price. **Thus, price is the exchange value of a product expressed in terms of rupees or any other monetary units.**

Anything of commercial value has a price. Generally, we think that only physical products have a price. But the services also have a price. However, the prices paid for different services are known by different names. For instance, 'fare' is the price we pay for transport service provided by a bus or railways or airways, 'premium' is the price for the risk covered under insurance, 'interest' is the price charged on the bank loans, 'tuition fee' is the price of providing education, and 'rent' is the price of hiring a house or shop.

Adam Smith has aptly defined the concept of price: *"The price of everything, what everything really costs, is the toil and trouble of acquiring it"*.

Price is an important element of marketing. After developing a product, the next thing a company has to decide is the price. If the price is not correctly determined, it will adversely affect the sales of the product and the profit of the company. Buyer's decision to buy a product is largely influenced by its price. Through price the company may attempt to increase or reduce the demand for a product or the level of competition. Wrong pricing policies can also lead to legal complications apart from generating ill-will and resentment among the buyers.

The question as to what should be the reasonable price to charge from the buyer, is a perplexing problem for the marketing manager. While some people feel that the price can be as high as the customer can pay, others think that it should be low enough to enable the maximum number of persons to buy the product.

Price is an important consideration not only for business concerns, but also to other organisations which provide various types of services, such as transport, insurance, advertising, banking, entertainment, electricity, etc. Moreover, organisation whose object is not to earn profit also find it useful to

know the principles of pricing. For example, a university would like to know what would be the 'fair' or 'proper' tuition fee to be charged from students. Similarly, a doctor would like to know the principles of price setting for the consultation services, which he provides to the patients.

Often price is the major basis of competition in the market. It is one of the major aspects which the competitors watch very closely. The price of the product will have a noticeable effect on its sales, on the firm's total revenues, and on its final profits.

Apart from the firm, price is important to the buyers and the society. Price represents the value of the market offering to the buyers. The demand of the product is greatly affected by its price. Price may often act as an indicator of quality. According to the law of demand, a decrease in price would lead to an increase in demand. However, in certain cases, increase in price may be perceived favourably by the buyers who might interpret it as a consequence of improvement of quality.

Price of a product influences wages, rent, interest, and profit, which are the prices paid to the factors of production-labour, land, capital and entrepreneurship respectively. Thus, price acts as a regulator of economy, since it influences the allocation of the factors of production.

Check Your Progress A

1) Fill in the blanks :

- i) Price is the.....of a product expressed in terms of rupees and paise or whatever the medium prevalent in the country where the exchange takes place.
- ii) Price facilitates the..... of goods and services.
- iii) Wrong pricing policies may develop.....among buyers.
- iv) The number of units sold multiplied by the price per unit equals.....
- v) Quite often consumers' perception of a product's quality varies..... with price.
- vi) Price is important not only to the company selling a product but also to andorganisations.

2) Who are the buyers and sellers in respect of the services whose prices are:

Types of price	Buyer	Seller
i) Insurance Premium	-----	-----
ii) Interest	-----	-----

iii) Rent	-----	-----
iv) Income Tax	-----	-----
v) GST	-----	-----
vi) Railway Fare	-----	-----
vii) Tuition Fee	-----	-----
viii) Salary	-----	-----

8.3 OBJECTIVES OF PRICING

The major objectives of pricing should be the same as those of the firm itself. Before fixing the price of its product, the firm must determine its pricing objectives. A firm may pursue more than one objective at the same time. While seeking to maximise profit in short run as well as long run, the firm may also seek to maintain good relations with the consumers and workers, and also comply with the legal requirements imposed by the government regarding pricing. It may seek to increase its sales and at the same time maintain goodwill. If the firm wants to pursue all these goals simultaneously, it has to strike a balance between all the objectives. The pricing objectives should be in conformity with the overall objectives of the firm.

The pricing objectives can be classified into three major categories:

- 1) Profitability objectives
- 2) Sales volume objectives
- 3) Other objectives

Let us discuss these objectives in detail one by one.

8.3.1 Profit-oriented Objectives

Making profits is the major objective usually kept in mind in pricing decisions. Profit maximisation is the traditional pricing objective of business enterprises. Profit oriented objectives may take any of the following two forms: a) profit maximisation and b) achieve the desired rate of return on investment. Let us learn them.

- 1) **Profit Maximisation:** Profit maximisation is the most common objective of business firms. The firm which aims at maximising profit will charge heavy margin of profit and, therefore, keep high prices. The major limitation of this objective is that the term profit maximisation often has an adverse connotation. It suggests profiteering, high prices and consumer exploitation.

If profit maximisation is the objective of the firm, it will estimate the demand and costs at different prices, and select the price which will bring maximum profits.

The objective of profit maximisation is likely to be far more beneficial to a company and to the public if it is practiced over the long run. To maximise profits in long run, however, the firms sometimes have to accept short run losses. A Company entering a new market segment or introducing a new product often fix low prices to attract new buyers.

- 2) **To Achieve Desired Return on Investment:** A company may fix the price of its product at a level which helps in achieving a predetermined return on investment or on sales. Some companies first calculate their costs (including the manufacturing and distribution costs), and then add a margin of profit which gives it the desired return on the total investment.

The target rate of return can serve as a kind of guidelines indicating improvements, especially in a new product line. The actual rate of return differs from industry to industry and from company to company. Many retailers and wholesalers use target return on net sales as pricing objective for short run periods. This pricing strategy (achieving a target return on investment) is generally opted by manufacturers who are leaders in their industry since they can get their pricing goals more independent of competitors.

8.3.2 Sales Volume-oriented Objectives

The pricing objective of some companies is to increase the sales volume or to maintain the sales volume or to increase the firm's market share. It may aimed at a) maximisation of sales volume and b) maximisation of market share. Let us learn them.

- 1) **Maximisation of Sales Volume:** Many companies want to maximise their sales volume irrespective of the profit earned. In such a situation, the company will set a minimum or lowest acceptable profit level and then seek to maximise sales in the belief that the increased sales are more important in long run than immediate high profits. To increase sales volume may not be in accordance with the modern marketing concept which advocates profitable sales volume. The management may decide to increase its sales volume by resorting to price cuts or heavy discounts, which may result in actual loss to the company. Thus the management is willing to take a short run loss if the increased sales enable the company to get a foothold in its market. Increase in sales does not necessarily lead to higher profits. Certain products may be having goods sales, but may not earn enough profits for the firm.
- 2) **Maximisation of Market Share:** Market share may be a better indicator of corporate strength than the target return on investment, especially when the total market is growing. When sales volume is increasing and the firm's competitors are also increasing at a fast rate, a false sense of security may develop. To offset this danger, firms keep a close watch on their market share.

However, some firms with high market shares may even prefer to reduce their share at times to prevent action against concentration of economic power under the Competition Act, 2002.

8.3.3 Other Objectives

Sometimes pricing objectives are not related either to profit maximisation or to sales volume maximisation, but they may have some other important considerations in setting prices of their products. These objectives include: i) to stabilise price, ii) to survive in the market, iii) to prevent competitor's entry into the market, and iv) to maintain or improve company's image as a supplier of quality goods. Let us study these four objectives in more detail.

- 1) **To Stabilise Prices:** Certain companies seek to keep stable prices and avoid price war. This objective would be sought by the company when it is faced by a big competitor who acts as a price leader and where the product is a standardised one. In order to minimise competition, the company will follow the leader's prices.
- 2) **To Survive:** When a company is facing stiff competition or overcapacity or lack of demand for its product, its objective may be to survive in the business. In such circumstances, it will set low prices just to cover the variable costs and a part of fixed costs, so that it can stay in the business for the time being.
- 3) **To Prevent Competitors' Entry:** Sometimes, it is more important for the company to prevent the possible entry of a competitor than earning profit in the short run. In such a situation, it will fix price at the lowest possible level so that there is no attraction for any competitor to enter the market. With low prices the company can penetrate the entire market and establish its complete hold over it. This is also often referred to as market penetration objective since the approval pertains to penetrate into the market with lowest possible prices so that it is not attractive for the potential competitors to enter the market.
- 4) **To Improve Company Image as a Quality Goods Supplier:** For supplying high quality goods, the company may have to incur heavy expenditure for producing high quality goods. When higher expenditure is incurred, the prices will also have to be high.

In conclusion, it can be said that if a firm is seeking a single objective of pricing policy, it must aim at maximising long term profit, since there are many cases when sellers do not maximise short run profit. Studies have revealed that the two most common objectives of pricing are profit maximisation and market share maximisation. Other objectives can more properly be viewed as pricing methods rather than as objectives. One factor that makes it difficult to arrive at the general principles and policies of pricing is the fact that different companies operate under

different conditions. The principles and policies of pricing vary from industry to industry, company to company, and from time to time.

Check Your Progress B

- 1) List various objectives of pricing.
- 2) Fill in the blanks :
 - i) In an industry where there is an industry leader and where the product is standardised a firm would tend to have a pricing policy.
 - ii) For preventing possible entry of competitors to the market..... pricing policy is suitable.
 - iii) Profit maximisation objective is influenced by supply and conditions prevailing in a competitive market.
 - iv) When the company is facing stiff competition or overcapacity or lack of demand for its product its objective is it to..... in the business.
 - v) Sometimes companies may take short run loss if the increased sales enable a company to get ain the market.
- 3) State whether following statements are **True** or **False**.
 - i) Profit maximisation policy is beneficial to the firm as well as to the general public if it is practiced over a long period of time since it results in desirable allocation of resources.
 - ii) Price stabilisation policy seeks to prevent price wars.
 - iii) Price objectives should determine the final price.
 - iv) The target rate of return on capital employed may differ from industry to industry.
 - i) In an industry having a price leader and a standardised product, follow-the-leader policy, is not advisable.

8.4 FACTORS AFFECTING PRICE DETERMINATION

The major factors affecting the price of product or service are as follows:

- 1) The value of the product to the buyer
- 2) Product costs
- 3) Competition
- 4) Legal considerations
- 5) Other elements of marketing.

Let us now discuss these factors in detail.

8.4.1 Value of the Product to the Buyer

A person buys a product only when it is of any value to him (i.e., it provides any utility to him) in relation to the price demanded. Since a man's wants are unlimited and purchasing power is limited, he would buy those products which will give him the maximum satisfaction in relation to the price paid. Each consumer, in a subjective manner, prepares priority schedule of goods and services that can be purchased with his entire income. This scheduling is usually done subconsciously and subjectively. Because of the subjectivity involved, it is difficult to measure the utility provided by a product to a consumer.

When we consider buyers and the price, we are usually concerned with how do price affect their demand for a product. According to the **law of demand**, as you know more goods will be demanded at a lower price than at a higher price. This law holds good for most of the products. To a marketer demand means the desire for a product supported by the ability to purchase it.

In practice, a marketer must set a price that will attract enough buyers to achieve expected sales volume. The marketer must ascertain as to how price sensitive are the buyers to the change in price. **This sensitivity is measured by price elasticity of demand (simply referred to as elasticity of demand). Price elasticity is defined as the relative change in the quantity demanded caused by a relative change in price. It refers to the inverse relationship that exists between the price and the quantity sold.** Price elasticity can be calculated by dividing the percentage change in the quantity demanded by the percentage change in the price charged. Symbolically it can be expressed as follows:

$$\text{Price elasticity of demand (E)} = \frac{\frac{Q_1 - Q_2}{(Q_1 + Q_2)/2} \times 100}{\frac{P_1 - P_2}{(P_1 + P_2)/2} \times 100}$$

Where 'P' is price and 'Q' is quantity demanded.

If the demand for a product increases by 20% when the price is reduced by 5% the price elasticity demand is -4 and the demand is said to be elastic. The minus sign indicates that there is an inverse relationship between the demand and the price. If the demand falls by 5% when price is increased by 15%, then the elasticity of demand is 1/3. In this case, the demand for the product is inelastic.

The demand for a product is said to be elastic if the percentage change in quantity is greater than the percentage change in price. Conversely, the demand for a product is said to be price inelastic if a percentage change in price cause a smaller percentage change in demand. For price elastic

demand, a decrease in price would increase the total revenue (increase in quantity demanded would be more than the loss due to the price decrease). However, any increase in price would lead to a decrease in the total sales revenue. It is argued by others that **the profit is the difference between market price and cost (cost include distribution cost, administrative cost and manufacturing cost)**. Actually, this approach may be more realistic because it emphasises profit as the final objective.

Cost is undoubtedly an important consideration in price determination. In order to survive and grow, a company must recover all the costs and earn some amount of profit. For a limited period, as in the case of introductory stage of a new product or while entering a new market, a company can afford to sell the product at a loss. However, in the long run all the costs must be recovered.

The proper function of cost is to set the lower limit on the initial price charged for a product, while value to the buyer indicates the upper limit of the price. The job of the marketing manager is to choose that price between these two limits which will help him better in achieving the overall objective of pricing.

If the demand for the product is inelastic, the company is in a better position to fix prices at a higher level. **The demand for products which are purchased with discretionary income (such as luxury items, automobiles, etc.) is generally more elastic. The demand for necessities (such as salt, sugar, food grains, public transport services, etc.) is generally inelastic.**

8.4.2 Product Costs

It seems more logical to start the process of fixing price with costs. While fixing the price, the questions like: What is the cost? What profit should be earned on the sale of products? They seem easier to answer than the question. What can people pay for the product? Yet the third question (i.e., what people pay for the product) is the most important of the three. Nevertheless, many **marketers think in terms of total costs (manufacturing cost + distribution cost + administering cost) plus a reasonable profit as the proper procedure for fixing the price.**

Price = Total Cost + Profit

Types of Costs

For pricing purposes costs can be classified as: 1) fixed costs, and 2) variable costs.

Fixed Costs are those costs which do not vary with the volume of production or sale, whether the manufacturer produces 2,000 units or 100 units or completely stop the production he will have to incur certain expenses, such as the rent (or property tax) for the building, interest on the borrowed capital, electricity charges for lights and fans (used in office), etc. **These costs are**

also known as 'overhead costs'. These are called 'fixed costs' since they do not change in the short run.

Variable Costs are those costs which vary with the level of production: Costs of raw material, labour, power, etc., are directly proportional to the quantity of goods produced and are, therefore, called variable costs. **These can be controlled by changing the level of production.**

The sum of the fixed and variable costs is called **total costs**. Average total cost is the total costs divided by the number of units produced.

8.4.3 Competition

While the upper and lower limits of the price of a product is set by keeping in view the value of the product to the buyer and the cost of the product to the seller, the actual price to be fixed is influenced greatly by the degree of competition in the relevant market. If there is no competition or negligible competition in the market, the price will tend to be on the higher side. On the other hand, a free and healthy competition may result in reduction of the price.

The price and features of the products offered by the competitors will greatly affect the price charged by the company. Moreover, even the prices of substitute products should also be taken into consideration while fixing the price of the product.

Before a company decides the price of its product, it must also analyse the market, of competing products and also the behaviour of present competitors in the industry. The company also must examine the possibility of new competitors of the industry and their reaction towards the company. The likelihood of the entry of new competitors must be taken into account while fixing the price of the product.

8.4.4 Legal Considerations

Pricing is a very sensitive and important decision in marketing. An increase in price often attracts public criticism and may also attract legal restraint. Suppose an essential commodity, like medicine, costs Rs. 10 per unit, whereas the buyer is prepared to pay any amount in case of an emergency. In the absence of any competition, the seller will be tempted to charge a very high price, say Rs. 100 per unit. However, the law can restrain the unscrupulous seller from charging 'what the traffic will bear'. This can be done by the Government by declaring the said medicine as an 'essential commodity' under the Essential Commodities Act, 1955. Then, the seller does not have the freedom to charge above the price level fixed by the government in accordance with the guidelines laid down in the law. A number of legislations seek to regulate excessive discriminatory and unreasonable prices. The marketing manager must keep in view the legal

restraints in matters of price fixation. These restraints are explained in detail in Unit 10.

8.4.5 Other Elements of Marketing

The elements of the company's marketing (or the marketing methods) also have a significant effect on the pricing decision of a product. The channel of distribution, quality and amount of advertising, efficiency of sales personnel, the type of product differentiation, credit facility, after sales service, etc. affect the final price charged from the buyer. If the company is in a strong position in these respects, it gives the company a freedom to charge relatively higher prices. If the company is lacking or deficient on any of these counts, it may have to keep lower prices. For example, if a company is providing home delivery or 'money back' guarantee or is selling through expensive outlets (like air conditioned showrooms) the selling prices of its product can be on a higher side.

The company must follow all the marketing policies including the price policy consistently. If a product is significantly differentiated from competitors products, the company has more discretion in fixing the price of the product.

Check Your Progress C

- 1) List the factors that influence the price of a product.
- 2) Fill in the blanks:
 - i) The mechanism for measuring the relative intensity of demand for a product is referred to as the.....
 - ii) The demand for a product is elastic if an increase in the price of the product results in..... of the total revenue.
 - iii) The formula for computing the price elasticity of demand of a product is.....
 - iv) Healthy price competition will result in theof price.
 - v) When the product is significantly different from competitor's products, the company has discretion in fixing its prices.
- 3) Give two examples for each of the following:
 - i) Products having elastic demand
 - ii) Products having inelastic demand
- 4) The demand for a product increases by 25% when its price is reduced by 10%. Calculate the price elasticity of demand of the product. Will the demand be called the price elastic or inelastic?

8.5 BASIC METHODS OF PRICE DETERMINATION

From the point of view of sound business principles, prices should be determined after taking into consideration the costs, demand, competition, elements of marketing mix, and legal considerations. However, in practice, marketers often rely on one of the three major determinants of prices-costs, demand and competition.

Based on the relative emphasis given to these factors, there are three practical approaches to the setting of the price of a product or service:

- 1) Cost-oriented pricing
- 2) Demand-oriented pricing
- 3) Competition-oriented pricing

Study Figure 8.1 carefully for the classification of various methods of pricing. Let us study these methods in detail.

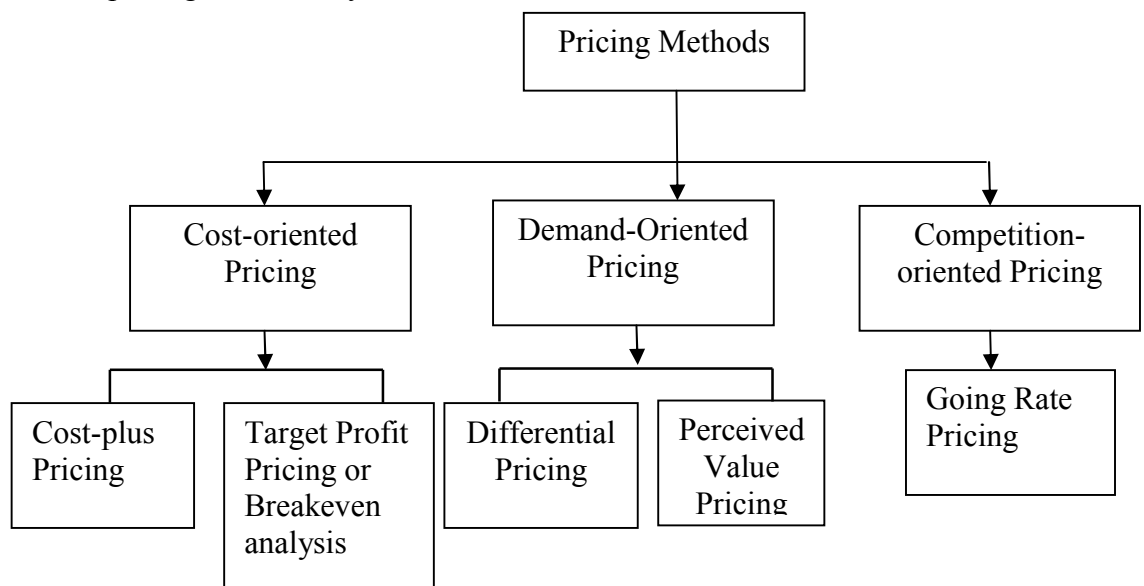


Figure 8.1: Methods of Price Determination

8.5.1 Cost-oriented Pricing

When the selling price is determined based on the total product cost and a specified margin of profit, the approach is known as **the cost-oriented approach to pricing or the cost-based pricing**. There are two methods of price setting which stem from the cost-oriented pricing: 1) cost-plus' pricing, and 2) target-profit pricing or break-even analysis. Let us study these two methods in detail.

1) Cost-plus Pricing

Some firms set the selling price of their products by aggregating all the costs of the product (including the manufacturing cost, distribution and marketing costs) plus a predetermined margin of profit. The cost-plus pricing method has been explained in the following illustration:

	Rs.Per unit
Total manufacturing costs	30.00
Selling and promotional costs	4.00
Distribution and administration costs	<u>6.00</u>
Total costs	40.00
Margin of profit	10.00
Selling price	<u>50.00</u>

In this method the product cost include both variable cost and fixed overhead costs.

This approach can be simply stated as: $\text{Selling Price} = \text{Variable Costs} + \text{Overhead Costs (Fixed Cost)} + \text{Profit Margin}$.

To make this method of cost-plus pricing more realistic, the company must consider the changes that are expected to occur in these costs as a result of change in the volume of production.

The pricing method enables the firm in covering all the costs and, in addition, to earn the desired margin of profit. Thus, the method is quite justifiable on grounds of fairness to both the sellers and the buyer. The method is also easy to understand and implement as there is generally less uncertainty about cost than the demand for the product. The margin of profit to be added to the cost has to be determined by the company. It can vary from industry to industry and from situation to situation. Retailers using the cost-plus method of pricing do not necessarily apply the same percentage of mark-up to every item.

This may also be a safe method in an uncertain market. It can safely be used for pricing the jobs like government contracts that are difficult to estimate in advance. For fixing prices for services, often cost-plus pricing method is adopted.

2) Target-profit Pricing or Break-even Analysis

This pricing method is slightly different from the cost-plus pricing method. Here, the firm wants to determine a price that will enable it to earn the desired profit. For the purpose, the break-even analysis is used by the firm and the break-even point is determined.

A break-even analysis relates total cost to total revenue. A **break-even point** is that level of production at which the total sales revenue (TR) equals the total cost (TC). In other words, a break-even point is the level of production or supply where firms neither earns any profit nor suffers any loss. It is represented by the intersection of TC and TR. There are different break-even points for different selling prices. Any amount of sale above the break-even point gives profits to the firm. If the amount of sale is below the break-even point the firm will incur loss. The break even point can be calculated in the following way:

$$\begin{aligned} \text{Break – even Point (In Unit)} &= \frac{\text{Total Fixed Costs}}{\text{Per unit Contribution}} \\ &= \frac{\text{Total Fixed Costs (F)}}{\text{Selling price per unit(P) – Average variable costs per unit (V)}} \\ \text{or B. E. P.} &= \frac{F}{P - V} \end{aligned}$$

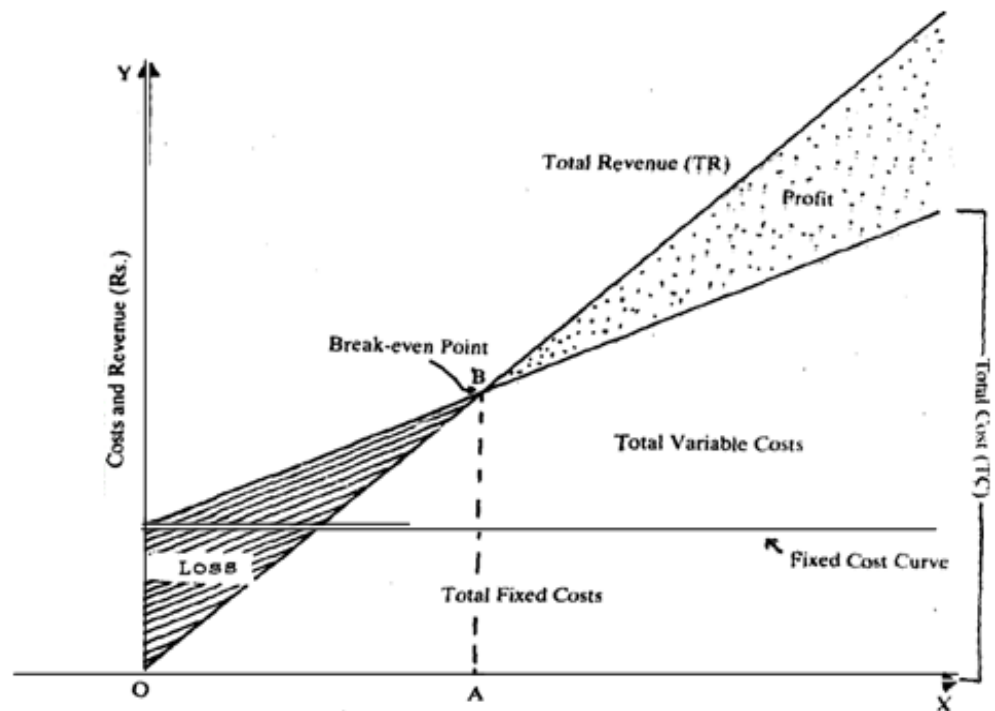


Figure 8.2 : Break-even Chart

Look at Figure 8.2 for a graphical presentation of break-even analysis. The figure shows the relative profit/loss at each level of quantity sold. A loss may be expected until the quantity of units sold reaches point A on the quantity line. The break-even point is represented by B, where the TR line intersects the TC line. After that, a profit may be expected. The fixed-cost curve does not change with the quantity whereas the variable cost increase with the increase in quantity of production. The total cost curve shows the total of

fixed costs and variable costs. the total revenue curve shows the amount of the sales volume, i.e., the number of units sold multiplied by the selling price per unit.

Let us understand the technique with the help of an illustration. Consider the case of Bharat Leather Works which manufactures foam leather bags. Suppose the total fixed costs for manufacturing and finishing the bags are Rs. 80,000 (irrespective of the amount of sales volume), the average variable cost per bag is Rs.8, and the selling price is Rs. 12 per bag. Then,

$$\text{Break – even Point (BEP)} = \frac{80,000}{12 - 8} = 20,000 \text{ bags}$$

Thus, if the selling price is to beset at Rs.12 per bag, the firm must sell at least 20,000 bag to break-even. i.e., for the total revenue to cover the total costs. If the firm wants to earn profit of Rs. 50,000, it must sell at least 32,500 bags at a price of Rs. 12 per bag. The break-even point, in rupees, can be found by multiplying the number of bags by the selling price per bag. In this example, the break-even point in rupees will be Rs. 2.40,000 (20,000 bags × Rs. 12 per bag)

The break-even analysis is a very useful technique for financial analysis and pricing decision-making. With the help of this technique, a marketing manager can ascertain the financial implications of pricing decisions, before they are actually implemented. For example if the price is increased from Rs. 12 per bag to Rs. 13 per bag, the break even point will come down to 16,000 bags. Similarly, if the price is reduced by Re. 1 per bag, the break-even point will go upto 26,667 bags. It is a simple device which is pretty accurate in the short run where costs, prices and demand estimates are relatively stable.

For fixing of price through the break-even analysis, the company must consider different prices, their impact on the sales volume required to pass the break-even point and earn the desired profit. Possibility of achieving the break-even sales level at different price levels also must be examined. The break-even analysis is particularly useful for fixing the price of a new product.

The major limitation of break-even analysis for price fixation is that the variable cost for each additional unit are assumed to be the same and the total fixed costs are assumed to remain constant at all levels of production. These assumptions may be true for certain products, but not for all. The assumption of uniform selling price, irrespective of the quantity purchased, is also not always true. In order to encourage bulk buying, sellers offer quantity discounts which have the effect of lowering the selling price for the higher slab of the purchases. In that case, the sales revenue may not increase proportionately and the revenue curve may not be linear.

Through the break-even analysis, one can ascertain the number of units to be sold in order to break even. However, through this technique we may not be

able to ascertain whether the firm can actually sell that number of units at that particular price. Break-even analysis, thus, is only partially helpful in price determination. It shows the comparative effect of alternative prices, costs and quantities on the break even point.

8.5.2 Demand-oriented Pricing

Demand-oriented pricing is based on an estimate of how much sales volume can be expected at various prices which can be paid by different types of buyers. Instead of fixing the price on the basis of costs or competitors price, some firms often fix the selling price of their products on the basis of the demand. In other words, irrespective of the cost of the product or what the competitors are charging, a higher price is charged for a product or service when its demand is more and a lower price is charged when the demand is less, even though the costs are the same in both cases.

The two methods of pricing under this approach are:

- 1) Differential pricing
- 2) Perceived-value pricing

1) Differential Pricing

Generally different groups of buyers have different wants and desires. Consequently, the intensity of their demand for the product would also be different. In such situations, for the same product sellers would be tempted to charge higher price for those having less elastic demand and lower price for those having more elastic demand. **Differential pricing is normally based on one of the four factors: the customer, place (location of the customer), time of purchase, and the product version.**

Different prices may be fixed for different customers, persons or groups of persons. This may be possible due to the difference in the capacity of bargaining, ability to pay, level of knowledge about the product features or the availability of product. For example, in a cinema hall, tickets for different classes of seats are priced at different rates whereas there is no significant difference in the cinema shown to these classes.

If the prices are different for the same or similar product sold at different places, it is a case of location or place differential. In terms of time, the demand for a product frequently varies by season, day, or even by the hour of the day. The prices may be fixed to take advantage of the demand intensity at a particular season or point of time. For example, telephone rates are different on working days and holidays. Telephone rates are also different for day calls, night calls and evening/morning calls. Similarly, hotels often charge different rates for the same accommodation during different seasons.

Under product based differential pricing, the seller charges substantially different prices from the buyers for slightly different versions of the same

products, so that the difference in prices is more than proportionate to the cost of different product forms or versions. The hard-bound American edition of William J Stanton's book on Fundamentals of Marketing is priced at Rs.900, whereas the international student edition of the same book is priced at Rs. 150 only. The only difference in the two editions is in respect of the quality of the paper used and the use of colour pictures and diagrams in the hard-bound edition. The price difference is much more than the difference in the actual costs of two editions.

Discriminatory prices are likely to generate customer ill-will and may also attract legal action. Hence, the seller has to consider the consequences well before deciding upon the discriminatory prices.

2) Perceived-value Pricing

Different buyers often have different perceptions of the same product on the basis of its value to them. A cup of tea is priced differently by hotels and restaurants of different categories, because buyers will assign different value to the same item. When you follow this 'perceived-value' method of pricing, you have to ascertain how different buyers perceive the product in terms of its quality, features and attributes (like colour, size, durability, softness etc.), and how do they perceive the value of the product in terms of such product differences.

8.5.3 Competition-oriented Pricing

When the price is determined with reference to the price of a similar product charged by the competitor, and not on the basis of the costs of the product or the different perceptions of the product by different buyers, the pricing approach is referred to as competition-oriented pricing.

1) Going Rate Pricing

This is the important method under competition-oriented pricing approach. In this case, the firm does not maintain an elaborate record of various product costs. The firm also does not try to ascertain the difference in the intensity of demand or the perceptions of the value of the product in the minds of the buyers. The firm decides the price of its products on the 'going-rate prices' in the market. The price is not necessarily the same as that charged by the competitors or by the industry leader, it can be lower or higher. Whenever the industry leader or the trade association increases / decreases the price, the firm follows them. The practice of fixing the going rate price is quite popular among traders, especially among the retailers.

Those who adopt the going rate method of pricing argue that the prevailing rates represent the collective wisdom of the industry. Furthermore, it is often difficult to ascertain the customer's reaction to price differentials and their perception of the different product features. Moreover, this method is easy to adopt as there is no need to estimate the price elasticity of demand or various

product costs. It is also felt that the adoption of the going rate pricing method prevents price wars among competitors. This method is practiced mainly in the case of homogeneous products, under conditions of pure competition and oligopoly. The firm selling any undifferentiated product in a purely competitive market actually has very little choice in setting its prices.

Check Your Progress D

- 1) List the three major methods of setting price.
- 2) What are the factors taken into account in cost-plus pricing?
- 3) State the formula for computing break-even point.
- 4) If the fixed costs for manufacturing and selling a product amounts to Rs. 1 lakh, variable costs per unit is Rs. 25, the selling price per unit is Rs. 40, calculate the break-even point..
- 5) Differentiate between perceived value pricing and going-rate pricing.
- 6) State whether the following statements are **True** or **False**.
 - i) Break-even analysis is particularly useful in setting the price of a new product.
 - ii) People in the same income brackets do not have different perceptions of the same product.
 - iii) In the going-rate pricing, the firm ignores its costs and the demand intensities for its product.
 - iv) The going-rate pricing method is appropriate in a market which is highly competitive and where the product is homogeneous.
- i) Differential pricing can be adopted only for the slightly different versions of the same product.

8.6 LET US SUM UP

Price is the exchange value of a product or service. It is an important marketing function since it determines the company's sales revenue and profit and also regulates the economic activity.

Pricing objectives must be decided in accordance with the company's overall marketing objectives. Pricing objectives may be broadly classified under three heads 1) Profitability objectives (including profit maximisation and target return on investment). 2) Sales volume objectives (including sales maximisation and maximisation of market share. 3) Other objectives (including price stabilisation, survival, market penetration for prevention of competitor's entry into the market, and building image as a supplier of quality goods).

While deciding selling prices of goods and services, business enterprises may adopt any one of the following three approaches. 1) cost-oriented approach. 2) demand oriented approach, and 3) competition-oriented approach.

In cost- oriented approach, cost is the major basis of fixing price. In this approach there are two methods: 1) 'costs –plus' pricing 2) target profit pricing. Cost plus price is arrived at by aggregating the relevant costs and adding to it a margin of profit. Target profit pricing is based on the break-even analysis.

Major consideration in price setting under demand-oriented approach is the buyer's demand intensity and perception of the product's value and utility, rather than the product costs. There are two distinctive methods under this approach 1) differential or discriminatory pricing, and 2) perceived-value pricing.

The decisions and actions of competitors, rather than the company's product costs or demand level, form the basis for setting the price under competition-oriented approach. The firm neither maintain its own cost records nor seeks to measure the demand intensity nor buyer's perceptions towards the product. Going rate pricing comes under this approach

8.7 KEY WORDS

Break-Even Point: That quantity of output at which the sales revenue equals total costs, assuming a certain selling price.

Cost-Plus Pricing: A method of price determination where the price of a unit of a product is set at a level equal to the units total cost plus a desired profit on the unit.

Going-rate Pricing: A pricing objective that involves setting prices based on competitor's price rates rather than on company's costs or demand.

Target Profit Pricing: A pricing objective that involves setting prices so as to achieve a certain percentage of return on investment on or net sales.

8.8 ANSWERS TO CHECK YOUR PROGRESS

- | | | | |
|----|---|--|------------------|
| A | 1. i) exchange value; monetary
iv) sales revenue
vi) the firm providing service; non-profit | ii) exchange
v) directly | iii)
ill-will |
| B | 2. i) price stabilisation
iv) survive | ii) penetration pricing
v) foothold | iii) demand |
| 3. | i. True ii) True iii) True iv) True v) False | | |

- C 2. i) elasticity of demand ii) decrease in
- iii) $\frac{\frac{Q_1 - Q_2}{(Q_1 + Q_2)/2} \times 100}{\frac{P_1 - P_2}{(P_1 - P_2)/1} \times 100}$ v) reduction v) more

4. 2.5, elastic

- D) 6. i) True ii) False iii) True iv) True v) False

8.9 TERMINAL QUESTIONS

- 1) Explain the role and importance of price.
- 2) Explain the major pricing objectives.
- 3) What factors do affect the basic price of product or service? Briefly explain each of them.
- 4) Explain the major methods of setting the price in actual practice. With examples.
- 5) Write brief notes on the following:
 - i) Break-even analysis
 - ii) Cost-plus pricing
 - iii) Going-rate pricing
 - iv) Profit-maximisation objective
 - v) Survival objective
 - vi) Perceived-value pricing
- 6) Explain the major merits and limitations of the cost-plus pricing method.
- 7) Distinguish between the profit maximisation pricing and the sales-volume maximisation pricing.
- 8) Explain the reasons for the popularity of the going rate method of price setting. What are its inherent weaknesses?
- 9) A small manufacturer sells a toy to the retailer at the rate of Rs.8.40 per dozen. The manufacturing cost was 50 paise per toy. The selling and administration costs amounted to Rs.19,200. How many dozens of the toys must he sell to cover these expenses and to pay for an advertising campaign costing Rs.6,000?

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

UNIT 9 DISCOUNTS AND ALLOWANCES

Structure

- 9.0 Objectives
- 9.1 Introduction
- 9.2 Discounts and Allowances
 - 9.2.1 Quantity Discount
 - 9.2.2 Trade Discount
 - 9.2.3 Cash Discount
 - 9.2.4 Seasonal Discount
 - 9.2.5 Promotional Allowance
- 9.3 Geographical Pricing
 - 9.3.1 F.O.B. Factory Pricing
 - 9.3.2 Uniform Delivered Pricing
 - 9.3.3 Zone Pricing
 - 9.3.4 Freight Absorption Pricing
 - 9.3.5 Price Quotations in International Markets
- 9.4 Pricing a New Product
 - 9.4.1 Market Skimming Price
 - 9.4.2 Market Penetration Price
- 9.5 Fixed Price Versus Flexible Price Policy
- 9.6 Unit Pricing
- 9.7 Let Us Sum Up
- 9.8 Key Words
- 9.9 Answers to Check Your Progress
- 9.10 Terminal Questions

9.0 OBJECTIVES

After studying this unit, you should be able to :

- list various types of discounts and allowances, and explain their mechanism and rationale;
- explain various price policies relating to the geographic location of the customers;
- discuss the alternative price policies, pertaining to new product;
- describe the considerations governing the price changes; and
- explain the concept and characteristics of unit pricing.

9.1 INTRODUCTION

After deciding on the sale price for the product or service, you have to formulate appropriate strategies and policies relating to various aspects of the price structure. You may have to adjust the basic product price to suit any particular situation arising due to changes in cost demand, competition, location of buyer, amount of purchase, frequency of purchase. etc. In this context, you may face certain situation such as the following: If a customer buys in bulk, should there be any reduction? If the goods are produced in Ahmedabad factory, should the buyers throughout the country be charged the same price? If the competitor has reduced his product price should we also reduce the price of our product? Should we recommend or fix the prices to be charged by the middlemen on the re-sale of the product? All such questions are to be answered while devising various price policies and strategies to provide guidelines and framework to the management in the matter of administering the price. In this unit, you will study the strategies relating to discounts and allowances, geographical pricing, new product pricing, fixed and flexible price policy and unit pricing.

9.2 DISCOUNTS AND ALLOWANCES

As you know, manufacturers often prepare the list of prices for their products for quoting to the buyers and also display it on the product labels. List price is further adjusted to suit the requirements of the dealers and buyers. Such adjustments may be in the form of various reductions from the list price such as discounts, rebates, commissions and allowances. Let us study about discounts in detail.

9.2.1 Quantity Discount

Selling and distribution costs are directly related to the quantity sold to a single buyer. If the buyer buys large quantities, the seller saves in selling and distribution costs. In order to provide incentive to buyers to buy in large quantities, the seller often allows a reduction in the price charged for the product. The reduction is referred to as the **quantity discount**. These discounts are based on the size of purchase, either in units of product or the value of the purchase. For example, if you buy one banana the price may be Re.0.50, but if you buy a dozen, the price may be Rs. 5.00 per dozen. If you buy 1 Kg. of rice, the price may be Rs.6, but if you purchase one quintal (100 kg.) the price may be Rs.550. In the first case, you are getting a quantity discount of Re. 1.00 on a quantity of 12 bananas or on Rs.6.00. In the second case, you are being given a quantity discount of Rs.50 (600 for 100 kilogram minus the actual amount charged Rs.550). There are two types of quantity discounts - 1) cumulative discounts and 2) non-cumulative discounts.

Non-cumulative Quantity Discounts : When the quantity discount is allowed on each single purchase of one product or several products from the

same seller, it is called non-cumulative discount. Study the following illustration as an example of non-cumulative quantity discount allowed by a manufacturer of a toilet soap to a wholesaler:

Table 9.1 An Illustration of Non-cumulative Discount

No. of cases of soap cakes bought (12 dozens in each case) in a single purchase	Discount from the list price
1 to 4 cases	Nil
5 to 9	3%
10 to 19	4%
20 to 49	5%
50 and above	6%

The structure of non-cumulative discount may also be expressed in a slab system of price. Look at Table 9.2 for an illustration.

Table 9.2 Non-cumulative Discount Shown in Slab System

Size of the Order (No. of Soap Cakes)	Selling Price (Rs. per soap cake)
1 to 99	5.00
100 to 499	4.85
500 to 999	4.80
1,000 to 4,999	4.75
5,000 and above	4.70

Non-cumulative discounts provide inducement to the buyer to place large orders. The large orders result in reduction of various costs to the seller which vary with the size of the order. These costs include: the selling costs, order processing costs, packing and transportation costs, delivery and collection costs. Large orders may also reduce production costs to the extent that they facilitate production of the goods on more economical scale.

Cumulative Quantity Discounts: This type of discount is the reduction in price of product or a group of products based on the total amount of purchases made by a particular buyer from the seller during a specified time period, generally a year. It is also called a '**deferred or patronage discount**' since it represents a reward to the buyer for patronising the seller for a relatively longer period. Moreover, he gets the discount at the end of a specific period. The more he buys during the period, the more amount of

discount he gets since the discount is often in slabs based on the sales volume. This type of discount is illustrated in Table 9.3 by the discount schedule used by a manufacturer of readymade garments.

Table 9.3 : An illustration of Cumulative Quantity Discounts

Total Annual Purchase	Quantity Discount
Below 50,000	Nil
Rs. 50,000 to 99,999	1.0%
Rs. 1,00,000 to 1,49,999	1.5%
Rs. 2,00,000 to 2,49,000	2.0%
Rs. 2,50,000 to 3,99,999	2.5%
Rs. 4,00,000 to 4,99,999	3.0%
Rs. 5,00,000 and above	4.0%

9.2.2 Trade Discount

The trade discount, also called **functional discount**, is a reduction in price allowed to the distributing middlemen (wholesalers and retailers) for performing specific functions such as storing, selling, information gathering, complaint handling, customer servicing, etc. Different types of middlemen may be allowed different rates of discounts depending upon the functions and services provided by them to the manufacturer. However, the middlemen at the same horizontal level (e.g, all wholesalers) must be given the same rate of trade discount. Otherwise, the practice will amount to discriminatory dealing which may generate ill-will among the dealers and may also be objectionable under the law.

Trade discount may also reflect the buyer's keenness of doing business, since this is an important consideration if the seller needs the volume from a certain class of buyers.

9.2.3 Cash Discount

Any reduction from the amount of the bill to encourage the buyer to pay the bill promptly is known as **cash discount**. This is often done when the sales are made on credit. The cash discount is calculated on the amount after deducting the trade and quantity discounts from the list price. A typical example is 2/10, n/30 which means that the payment is due within 30 days, but if the buyer pays the bill within 10 day she can deduct two per cent of the amount.

You can use this cash discount strategy to : 1) collect the bills more quickly, 2) reduce credit risk (i.e., bad debts), 3) improve liquidity position, 4) reduce the cost of borrowing to finance the credit, and 5) reduce the cost of account keeping and collection staff. From the buyer's point of view also it is

advantageous to earn 2% discount by paying the invoice just 20 days earlier than the day on which it has to be paid any way. If we calculate it on annual basis, it amounts to 36% per year, which is a big amount.

A very high cash discount may not be justified on the basis of encouraging prompt payment. On the other hand, a very low cash discount may not be able to motivate the buyer to make prompt payment. The rate of cash discount should be decided after taking into account both the above aspects. In many cases, the cash discount is given only because it is expected and has become a custom in the trade. In order to avoid discrimination among the buyers, the cash discount must be offered to all buyers at the uniform rate.

9.2.4 Seasonal Discount

Sometimes, a discount is allowed from the list price during off-season. This is done to encourage the buyer to buy the product in the face of lack of demand in off-season. This discount is known as the **seasonal discount**. As you are aware, for example, manufacturers of refrigerators offer discount during the winter season when there is less demand for refrigerators. Similarly, manufacturers of fans also offer discount during winter season. The seasonal discount motivates the buyer to buy the product in off-season and stock the product much before its actual demand. Thus, the manufacturer can sell the products in off-season and the inventory costs can be substantially reduced by allowing seasonal discount. This discount also helps the seller in smoothening the uneven production and sales pattern of the product. If the seasonal discount offered by the manufacturer to the middlemen are substantial, the middlemen can pass on the whole or the part thereof to the customers.

9.2.5 Promotional Allowance

A promotional allowance or discount refers to a reduction from a bill made by a manufacturer to a middleman for performing any additional functions for promotion and selling his product. These functions include: local advertising, product demonstration, display, participation in the local exhibitions, etc.

Check Your Progress A

- 1) Distinguish between cumulative quantity discount and non-cumulative quantity discount.
- 2) A firm quotes a list price of its product at Rs. 200 per unit, and offers a trade discount of 20% to the retailer and 5% to the wholesaler. What is the selling price charged by the manufacturer ?

If a manufacturer is allowing a quantity discount of 4% for an order of the value of Rs 5,000, a cash discount of 2% on a payment within 7 days, trade discount of 5% and a seasonal discount of Rs. 100 at a flat rate.

What will be the amount of the bill and the final amount to be paid by the buyer while making payment within the stipulated time?

- 4) State whether the following statements are **True** or **False**.
- When discount is allowed on a single purchase, it is called cumulative quantity discount.
 - Cumulative quantity discounts induce the buyers to patronage a particular seller.
 - One of the main objectives of cash discounts is to encourage the buyers to pay promptly.
 - Seasonal discount is offered by a company throughout the year.
 - Promotional allowance is given by a manufacturer to a consumer.

9.3 GEOGRAPHICAL PRICING

Geographical considerations are important in pricing when the customers are located in different parts of the country or the world and the product is relatively bulky and heavy involving substantial transportation costs. In such a case, you have to decide whether to charge higher price to distant customers to cover transportation costs or to charge uniform price to all customers regardless of their location. The geographical pricing helps you in handling such pricing problems. The marketers have evolved four different geographical pricing strategies which are described below.

9.3.1 F.O.B. Factory Pricing

Under the F.O.B. (Free on Board) factory pricing method, the buyer bears all the freight charges. The seller bears only the cost upto loading the merchandise on the carrier selected by the buyer. In the case of railways, the method is referred to as "F.O.R., origin" (Free on Rail) pricing. The seller charges a price based on his selling price at his factory gate plus transportation cost from the factory gate (or seller's supply point) to the buyer's warehouse.

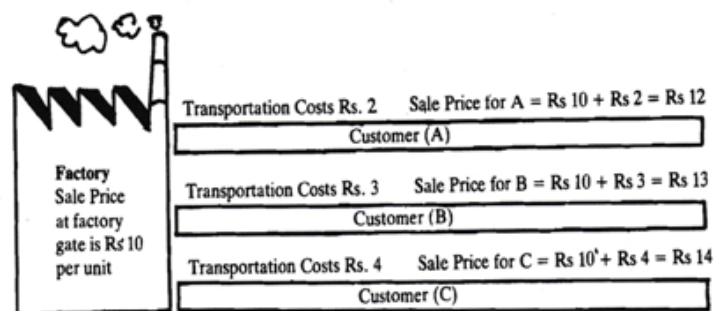


Figure 9.1: F.O.B. Factory Pricing

Study Figure 9.1 carefully for the procedure of F.O.B. factory pricing. It shows that the sale price at the factory gate of the seller is Rs. 10 per unit. The seller adds the transportation cost to his selling price at his factory gate. Thus, the sale price for customer 'A' will be Rs.12 (Rs. 10 + Rs. 2), for customer B and for customer C it will be Rs.13 and Rs.14 respectively.

The major advantage of the F.O.B. origin pricing is that it provides an equitable way of allocating freight charges since each customer picks up his own cost. However, this method suffers from the drawback that it becomes a high-cost firm to distant customers. This will result in shifting of distant customers to competitors nearer to their locations. This may lead to geographic monopoly of the seller, because freight rates prevent distant competitors from entering the market. The seller, in turn is priced out of more distant markets.

9.3.2 Uniform Delivered Pricing

Uniform delivered pricing is the opposite of the F.O.B. factory pricing. Here, the company charges the same price including freight to all customers regardless of their location. This method is also referred to as 'postage stamp' pricing since postage rates are the same for different locations. The uniform delivered price is determined after adding an average transportation cost to the sale price at the factory gate. Study Figure 9.2 carefully to understand the procedure of uniform delivered pricing.

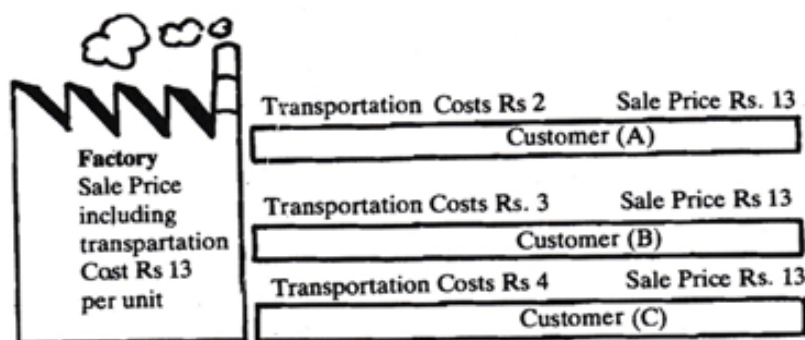


Figure 9.2 : Uniform Delivered Pricing

As shown in Figure 9.2, the sale price is Rs. 13 for all the three customers regardless of their location and their transportation cost. The sale price at the factory gate of the seller is Rs. 10 per unit. The seller adds the average transportation cost $\frac{2+3+4}{3} = \frac{9}{3} = 3$ which is Rs. 3. Thus the sale price including transportation cost under this method will be Rs. 13 for all the three customers.

The advantage of uniform delivered pricing is that it helps in serving all the customers alike irrespective of their locations. Uniform delivered pricing is relatively easy to administer. It allows the firm to maintain a nationally advertised price. The main drawback of this pricing policy is that the

neighbouring customers may prefer to buy the product from another local firm that uses the F.O.B. origin pricing.

9.3.3 Zone Pricing

Zone pricing is a midway position between the F.O.B. factory pricing and the uniform delivered pricing. Under this method, the whole market is divided into a certain number of zones. A separate price is fixed for each zone, keeping in view the average transportation cost for respective zones. The product is sold within the zone at the price determined for that zone, irrespective of customers' location within the zone.

The advantage of zone pricing method is that it helps in fairly equitable allocation of freight charges since the price in each zone has been fixed keeping in view the sale price at factory gate and average transportation cost to respective zones. It is a relatively easy pricing method to administer. It allows the company to maintain an advertised price for each zone.

The major drawback of this pricing method is it discourages the border customers since they are required to pay higher price than what their neighbours across the border pays. Secondly, this pricing method results in the loss of distant zone customers to the competitors near the zone in which they are situated.

9.3.4 Freight-Absorption Pricing

Under the 'freight absorption pricing method, seller charges the sale price at his factory gate to all customers irrespective of their locations and the transportation costs. The freight expenses are borne by the seller. He does not charge any sum for freight expenses from the customers as he is anxious to do business with them. This freight absorption pricing method may be suitable in the following situations :

- 1) Where the seller has high fixed cost and if he can get more business, his average costs will fall and compensate for extra freight charges. Even sometimes fall in cost may be more than the freight charges resulting in profits.
- 2) Where the seller wants to penetrate into the market.
- 3) Where the seller wants to meet increasing competition in the market.

When the market is highly competitive or the firm is anxious to do business with a particular customer or geographical area, it might absorb all or a substantial part of the actual transportation costs. Rationale for adopting this approach is that if the firm gets more business, fall in its average costs will be more than the extra transportation costs. When the firm wants to hold on the increasingly competitive markets or it wants to penetrate into a particular market segment, it can adopt freight absorption pricing.

9.3.5 Price Quotations in International Markets

For an international marketer who operates in many countries simultaneously, geographical pricing is more suitable. Geographical pricing involves the question of using a particular price quotation to a particular buyer. These price quotations are frequently used by international marketers and they define:

- 1) the transportation and freight cost included in the price.
- 2) the respective duties of seller and buyer.
- 3) their respective liability in case of loss or damage.

Some of the common used quotations are :

Ex-Point of Origin Price: This price is also referred to as ex-factory or ex-mine or ex-works price. Under this price quotation, the exporter's responsibility (including costs) ends at his factory. Thus, his liability for loss or damages, his duties and costs included in the export price are minimum.

F.O.B. (Free on Boarding) Price: Various types of f.o.b. prices are quoted by international marketers. Some of them may require loading of the exported wares on railway wagons, trucks, or other conveyances at the seaboard and others may require delivery on board the international carrier that may or may not be at the seaboard.

C.I.F. (Cost, Insurance and Freight) Price: This is the most commonly used price quotation. The seller is required to pay for all the cost until the goods reach the importer's country. The costs include transportation costs to the port of discharge (in the buyer's country), inland transportation to the port of export, port handling charges, ocean freight to the foreign port of destination, etc.

Check Your Progress B

- 1) State different geographic pricing methods.
- 2) Based on your experience, name four products which are sold under uniform delivered price.
- 3) Differentiate between F.O.B. pricing and C.I.F. uniform pricing.
- 4) Fill in the blanks.
 - i) In F.O.R. origin pricing method, F.O.R. stands for.....
 - ii) The zonal pricing method is between the two extreme positions represented by..... and..... methods.
 - iii) Sellers' cost, responsibilities and liabilities are minimum when price is quoted.

- iv) Buyers' costs, responsibilities and liabilities are minimum whenprice is quoted.
- v) When the firm wants to hold on the increasingly competitive market or it wants to penetrate into a particular market segment, it can adopt..... pricing.

9.4 PRICING A NEW PRODUCT

When a new product is launched in the market, the manufacturer enjoys flexibility in the matter of price setting. The price decision at this stage has long-run implications because an inappropriate price can adversely affect the demand and profitability of the product. At this stage, the firm has to particularly keep in view the long-run returns and profits rather than the immediate profits. Pricing a new product may become further difficult if the firm is inexperienced, and the data regarding the effect of price on demand is not available to the firm.

There are two approaches to the pricing of a new product. They are 1) market skimming price and 2) market penetration price. The two approaches are just opposite to each other. Let us study these approaches in detail.

9.4.1 Market Skimming Price

A manufacturer skims the market (or takes butter out of the milk) by launching a new product at a high price and later reducing the price gradually in order to tag new market segments. According to Joel Dean, **Skimming price is appropriate for a product that is a real innovation** (a product that represents a significant departure from established ways of doing things). The price is set at a level which is higher in the range of expected prices. The firm can continue with this policy for an indefinite period, or reduce the price subsequently for other segments of the market.

Skim-the-cream pricing is suitable for a new product under the following conditions:

- 1) The demand for the product is inelastic.
- 2) The average cost of producing a small volume is not very high.
- 3) The product is meant for elite class of buyers.
- 4) There is a sufficiently large number of buyers having a substantial demand.
- 5) There is little risk of the emergence of competitors.

If the firm adopts the skimming pricing strategy, its sales volume in units will be low but the sales volume in value will be high, and profits will also be high.

9.4.2 Market Penetration Price

In penetration pricing, a low initial price is set to reach the mass market immediately. Penetration pricing is said to be more suitable when the following conditions exist:

- 1) The quantity sold is highly sensitive to price, that is, the product has highly elastic demand.
- 2) Substantial reductions in production and marketing costs can be achieved through large-scale operations.
- 3) The absence of an adequate segment of the market that will accept a high price, what is known as an 'elite' market.
- 4) A strong threat of potential competition since a penetration price may be used to raise entry barriers to potential competitors. Therefore, it is sometimes referred to as 'keep-out or pre-emptive' pricing.

The nature of the potential competition will mainly influence your choice between the two pricing strategies. If competitors can enter a market quickly, and if the market potential for the product is very promising, management probably should adopt a policy of penetration pricing.

However, penetration pricing has two advantages :*Firstly*, it may discourage other firm from entering the field. The required investment in production and marketing may be too great relative to the anticipated low profit margin. *Secondly*, due to low prices, the innovator may get a strong hold on the market making it difficult for competitors to cut into it. On the other hand, skimming price may be more feasible where the market is not large enough to attract the big competitors. While percentage margins may be attractive, the total rupee profits could be too small to attract large firms.

9.5 FIXED PRICE VERSUS FLEXIBLE PRICE POLICY

During your visit to the market, you might have noticed some retail shops having fixed prices and some other stores where you can bargain the price. So, while determining price of a product, you have to decide whether any scope for bargaining by the buyer should be allowed or not.

In the case of **fixed price (or one price) policy**, the seller charges the same price to similar types of customers who purchase similar quantities of the product essentially under the same terms of sale. The price may vary according to the quantity of purchase i.e., discounts or allowances may be offered. Under this fixed price policy, you can also have single price per unit of a product regardless of the number of units being purchased by the buyer.

In **case of flexible price (or variable price) policy**, the seller can sell similar quantities to different buyers at different prices. The final price may be

determined by bargaining with the seller. For example, Bata shoes and chappels are sold at fixed price while the local dealers sell the local brands at negotiable prices.

Fixed price policy builds customer confidence in the seller. It also facilitates both the buyer and the seller as they need not waste time in bargaining. Persons with weak bargaining power prefer fixed price while others having high bargaining power like the flexible price policy. The flexible price policy also offers the seller flexibility in his dealings with different customers. Consumer durables like televisions, automobiles are often sold at negotiated or flexible price, unless their price is fixed in pursuance of some law or government policy.

Check Your Progress C

- 1) List the conditions which favour skim-the-cream pricing.
- 2) In which conditions the strategy of low initial price is suggested?
- 3) What is the main difference between fixed pricing and flexible pricing?
- 4) State whether the following statements are **True** or **False**.
 - i) The two pricing strategies — Penetration and skimming — are opposite and exclusive to each other.
 - ii) The penetration pricing strategy is suitable merely for the well established products.
 - iii) From the point of view of customer goodwill, flexible price is favourable.
 - iv) Persons with weak bargaining power normally prefer fixed pricing method.
 - v) Skimming price is suitable for the product that is real innovation.

9.6 UNIT PRICING

Unit price indicates the price per unit of a product contained in different package sizes having different quantities. For example, price of 100 ml. perfume bottle is Rs.30. While the price of 250 ml. of perfume bottle (same brand) may be fixed at Rs.70. Even for non-packaged goods also price per unit may be fixed. Because of tough competition and in an attempt to satisfy customers' needs, marketers are forced to offer different package sizes. For example, take tooth paste where packages of 10 gms., 50 gms., 100 gms., 250 gms., etc., are offered in the market. On each package, the price of the package along with units is printed. **Unit pricing facilitates price comparison and helps to make economical purchases.** The unit pricing may lead to decline in brand loyalties as the price competition increases. It

may be difficult to set unit prices for each package size, and thus, may be forced to adopt standard package size in course of time.

9.7 LET US SUM UP

Generally marketer sets a basic price for his product and adjust this basic price to suit any particular situation arising due to changes in cost, demand, competition, location of buyer, quantity purchased, frequency of purchase, etc,

The adjustments in the basic list price may be in the form of discounts and allowances. These discounts and allowances are mainly intended to motivate buyers either to buy in bulk or to make prompt payments or to perform some promotional functions. There are five types of discounts and allowances : 1) quantity discounts. 2) trade discounts, 3) cash discounts, 4) seasonal discounts, and 5) promotional allowances.

Transportation costs, storage costs and risk costs are important components of the Total costs. A seller has to decide who is going to bear these costs. On the one extreme, all these costs may be borne by the buyer and on the other, seller may be paying for all these costs. Between these two extremes, there lies several other geographical pricing strategies such as: 1) F.O.B. factory pricing, 2) uniform delivered pricing. 3) zone pricing, and 4) freight absorption pricing. An international marketer is supposed to have knowledge about the common price quotations like f.o.b. price, c.i.f. price and ex-point of origin price.

While pricing a new product seller has two choices: 1) set a high initial price and earn huge margins, which is known as market skimming pricing. 2) fix a low initial price so as to penetrate into the market and earn huge revenue by high sales turnover, known as penetration pricing. Seller may adopt fixed price or one price for every customer or may keep some flexibility in pricing (variable pricing). In the case of flexible pricing, depending upon the negotiations (or bargain) between the seller and the buyer, a final price may be arrived at. Setting of price is not the only task of a marketing manager. Circumstances may force him to change a price either by initiating a change or by responding to a price change made by competitors. Whatever course is adopted by him, care should be taken about the possible reactions of buyers, competitors and the government.

9.8 KEY WORDS

Cash Discount: A deduction from list price to a buyer for paying a bill within a specified period of time.

Cumulative Quantity Discount: A type of quantity discount given to a buyer based on the total volume purchased over a period of time.

F.O.B.Factory Price: A type of geographic pricing in which responsibility for freight charges is assumed by the buyer once the product leave the place of manufacture.

Freight Absorption Price: A type of geographic pricing in which the seller absorbs or pays all or a portion of the actual freight charges.

Non-cumulative Quantity Discount: A type of quantity discount given to a buyer based on the volume of individual purchase order.

Penetration Pricing: Setting a low initial price for a product in an attempt to reach a mass market immediately.

Promotional Allowance: A payment or price reduction granted to a dealer for the promotional service rendered by him.

Quantity Discount: A reduction from list price to a buyer who buys large volume.

Skimming Pricing: Setting a high initial price for a product with an objective of quickly recovering new product development costs.

Trade Discount: A reduction from the list price to a buyer in payment for marketing activities that he will perform.

Uniform Delivered Pricing: A type of geographic pricing in which the seller charges all buyers the same delivered price regardless of the location of the buyer or costs involved.

Unit Pricing: A form of price reporting where the price per some standard is quoted in order to aid consumers in comparison shopping.

Zone Pricing: A type of geographic pricing in which seller divides customers into geographic zones and charges the same price to all customers within a zone.

9.9 ANSWERS TO CHECK YOUR PROGRESS

A) 2. Rs. 150

3. Rs. 4,606

4. i) False ii) True iii) True iv) False v) False

B) 4. i) Free on Rail ii) F.O.B. factory pricing, uniform delivered pricing

iii) F.O.B. factory iv) c.i.f. v) Freight Absorption

C) 3. i) True ii) False iii) False iv) True v) True

9.10 TERMINAL QUESTIONS

- 1) Explain various types of discounts and allowances given by the manufacturer to various types of buyers.
- 2) Distinguish Between :
 - i) Quantity discount and trade discount.
 - ii) Cumulative and non-cumulative quantity discounts.
 - iii) Skimming and penetration pricing.
 - iv) F.O.B. origin pricing and uniform delivered pricing.
- 3) Give arguments in favour of and against fixed price and flexible price policy.
- 4) Explain the conditions under which skimming price is preferred over penetration price.
- 5) Write short notes on the following:
 - i) Unit Pricing
 - ii) Zone Pricing
 - iii) Cash Discount
 - iv) Freight Absorption Pricing

<p>Note: These questions will help you to understand the unit better. Try to answers for them. But do not submit your answers to the University for assessment. These are for your practice only.</p>
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UNIT 10 REGULATION OF PRICES

Structure

10.0 Objectives

10.1 Introduction

10.2 Regulation of Pricing Under the Competition Act, 2002

10.2.1 Resale Price Maintenance

10.2.2 Price Discrimination

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10.2.4 Predatory Pricing

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10.3 Regulation of Pricing Under the Consumer Protection Act, 2019

10.3.1 Excessive Pricing

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10.4 Regulation of Pricing Under Other Act

10.4.1 The Essential Commodities Act, 1955

10.4.2 The Drug (Price Control) Order, 2013

10.4.3 The Industries (Development and Regulation) Act, 1951

10.4.4 The Legal Metrology (Packaged Commodities) Rules, 2011

10.5 Let Us Sum Up

10.6 Key Words

10.7 Answers to Check Your Progress

10.8 Terminal Questions

10.0 OBJECTIVES

After studying this unit, you should be able to:

- identify various legislations which regulate pricing policies in India; and
- explain how do various legislations regulate prices in India.

10.1 INTRODUCTION

You have already studied various pricing policies and strategies. But while deciding pricing strategies it is also important for you to keep in mind the legislative provisions regarding price. Regulation of prices is considered as one of the important means of achieving the socio-economic goals in many countries. The important factors that call for price control and regulation in

countries like India are short supply of goods and services, unreasonable level of prices, unfair trade practices and black-marketing, low levels of income of a large number of people, etc. In India, a number of legislations seek to regulate pricing policies and practices. They include : The Competition Act, 2002; The Consumer Protection Act, 2019; The Essential Commodities Act, 1955; The Prevention of Black-Marketing and Maintenance of Supplies of Essential Commodities Act, 1980; The Drugs (Price Control) Order 2013, The Industries (Development and Regulation) Act, 1951; and The Legal Metrology (Packaged Commodities) Rules, 2011. In this unit, we will discuss the major provisions of these legislations regarding the regulation of prices of goods and services in India. The main objective here is not to make a legal analysis and solve legal puzzles, but to give you proper understanding of the broad issues so that you will be able to prevent any legal problem regarding pricing.

10.2 REGULATION OF PRICING UNDER THE COMPETITION ACT, 2002

The Competition Act, 2002 is “An act to provide, keeping in view of the economic development of the country for the establishment of a commission to prevent practices having adverse effect on competition, to promote and sustain competition in markets, to protect the interest of consumers and to ensure freedom of trade carried on by other participants in markets, in India and for matter connected there with or incidental thereto.”

The prevention of certain trade practices that are detrimental to the consumer interest is one of the major objectives of price regulation. In India the Competition Act, 2002 seeks to prevent anti competitive practices that are prejudicial to the public interest. The provisions relating to the regulation of trade practices also cover pricing practices indulged in by the sellers who include: wholesalers, manufacturers and the retailers who tend to manipulate prices. The practices regulated under this Act are: resale price maintenance, price discrimination, collective price fixing, bargain and deceptive pricing, abuse of dominance, cartels, bid rigging, collusive agreement, predatory pricing and charging of unreasonably high price. Let us discuss these aspects in detail.

10.2.1 Resale Price Maintenance

With a view to exercise control over the price to be charged on the re-sale of his products, a manufacturer often stipulates the price to be charged by the dealers. Such a stipulation may be either through suggested re-sale price or fixed re-sale price. Insistence by the manufacturer that his product should not be sold below the price indicated by him, may eliminate competition among the distributors of the product. This may tend to keep the price paid by the consumer at a level higher than what it would have been otherwise. Thus, the practice of re-sale price maintenance may benefit the manufacturer and the

dealers. It may deprive the consumers, of the benefits that may accrue to them because of price competition among the sellers. Prices are fixed at a higher level under re-sale price maintenance because of which consumers have to pay higher prices.

The above discussion shows that, in certain cases, re-sale price maintenance is highly detrimental to the interests of the consumers. To regulate the practice of re-sale price maintenance in India, the Competition Act prohibits the fixation of minimum re-sale price. The Act provides that any agreement of sale between a person and a wholesaler or retailer shall be void if its objective is to provide for the establishment of minimum price to be charged on the re-sale of goods in India. No supplier of goods can notify, whether directly or indirectly to dealers or otherwise publish a price stated to be understood as a minimum price for re-sale of goods in India. The Act further lays down that no supplier can withhold supply of any goods from any wholesaler or retailer if the wholesaler or retailer seeks to obtain them for re-sale in India.

10.2.2 Price Discrimination

When a manufacturer or supplier of goods charge, for the same or similar product, a higher price from one dealer and a lower price from another, the practice is referred to as **price discrimination**. The discrimination in price can be made either through fixing and charging different prices from different buyers or by granting discount, commission, allowance or rebate at different rates to different buyers. The practice has an adverse effect on the competition since the dealer who has paid a higher price for the product cannot compete effectively with the one who has paid a lower price for the same product. Moreover, by allowing quantity discount or favourable terms of sale or delivery in excess of what is justified by cost-saving in bulk supply, the seller is, in effect, charging a lower price to a bigger dealer. This enables the bigger dealer to re-sell the product at a price lower than that charged by the smaller dealer. Furthermore, discrimination through the grant of a turnover bonus (often termed as “aggregate rebate”) has the effect of binding the buyer to the seller for a certain period. This will strengthen the sellers position in the market.

Price discrimination has an adverse effect on competition and, therefore, would amount to a restrictive trade practice under the Competition Act. Such a practice is regulated through the mechanism of an inquiry conducted by the Competition Commission of India.

10.2.3 Collective Price Fixing

Sometimes manufacturers and suppliers of goods and services enter into an agreement or understanding to eliminate competition among themselves, by fixing common prices and other terms of sale for their products or services. Such an agreement (or arrangement) leads to a formal or informal cartel,

which can envisage uniformity in the price fixation of competing firms. Collective price fixing can also take the form of collusive tendering and collusive bidding. The Competition Act allows for consumer who have been victimised by a price fixing suit to parties to file compensation claims before COMPAT as a class.

Collusive Tendering : It is a practice whereby sellers (or buyers) of goods or services secretly agree on the prices, or other terms or conditions of sale or purchase, to be quoted in response to a tender. They would quote such rates and terms as would make the offer of only the pre-decided tenderer acceptable. This practice results in unduly high prices of products or services offered for supply. The opposite will be the situation when the tenders invited are for the disposal of any product. In that case the rates quoted will be too low. To prevent this the Competition Commission of India (CCI) may penalize the accused.

Collusive Bidding: Collusive bidding is the counterpart of collusive tendering in situations where the goods are sought to be disposed of through auction. The system is prevalent among certain organisations which dispose of surplus goods through auction with a view to get the highest possible price. However, the buyers find it a convenient way of counteracting the seller's effort to raise the price of the product. They agree among themselves on the price or other terms (or conditions) of sale, or purchase of goods or services, to be offered at the auction. The collective agreement, arrangement or understanding, among the bidders leads to the manipulation of prices of the products or services offered for sale through auction.

Thus, collective price fixing, collusive tendering and collusive bidding have the effect of restricting or eliminating competition which amounts to restrictive trade practices. The provisions for the regulation of these practices are the same as those for other restrictive trade practices described in price discrimination.

10.2.4 Predatory Pricing

One way to eliminate or reduce competition in the market is to charge a slashed down price which can be even below the cost incurred by the manufacturer or supplier of the product. This is often done with the intention of driving out a smaller competitor and eventually making profit by the monopoly situation so created. Such a trade practice is often referred to as **predatory pricing**.

Since such a practice is essentially intended to eliminate competition, it amounts to a restrictive trade practice and invites the same regulatory measures under the Competition Act discussed under price discrimination.

10.2.5 Bargain and Deceptive Pricing

Sellers often attract buyers on false promises. A particular product is offered on a slashed-down price, but the intention of the advertiser is only to lure the buyer so that he may buy some other products. For example, a dealer advertises television set at Rs.30,000. Once the intending buyer is lured to the show-room for buying the television set, the dealer would avoid the sale of television set, disparage its features, demonstrate a defective one, or impose an unreasonable delivery date. Instead, the seller may persuade the buyer to buy any other brand of television or any other product.

Since the bargain pricing and deceptive pricing tend to mislead the consumers, such pricing practices amount to an unfair trade practice under the Competition Act. Unfair trade practices are sought to be regulated by the Competition Commission of India which is empowered to conduct an inquiry into the said practice. If the Commission is satisfied that the practice amounts to an unfair trade practice, it passes prohibitory order ("cease and desist order") against the party concerned.

10.2.6 Charging of Unreasonably High Prices

In order to maximise the profit and market power, businessmen often charge unreasonably high price and reduce competition in the market. This happens when a company is in a position to control production, supply or distribution of goods or services, because of their dominant position in the market. Charging of unreasonably high price amounts to a monopolistic trade practice under the Competition Act. Such practice is sought to be regulated through the instrumentality of the Competition Commission of India and the central government. While the inquiry is conducted by the Competition Commission of India which is a statutory body enjoying many powers of civil courts, the final order is passed by the Central government (Department of Company Affairs). Apart from passing a prohibitory ('cease and desist') order, the Central government enjoys wide powers of passing any other appropriate order to curb the evil consequences of the monopolistic trade practices.

Check Your Progress A

- 1) List the pricing practices indulged by the seller which attract the provisions of the Competition Act, 2002.
- 2) Distinguish between predatory pricing and price discrimination.
- 3) Distinguish between collusive tendering and collusive bidding.
- 4) Match the pricing practices given in Column A with the names of same pricing practices given in Column B.

Column A	Column B
i) Pricing is slashed-down below the cost with a view to eliminate competition.	a) Re-sale price maintenance
ii) Sellers have a secret agreement on the price to be quoted in response to a tender notice.	b) Collusive tendering
iii) A price charged on the re-sale of a product by a retailer.	c) Price discrimination
iv) A manufacturer of goods charged different prices from different dealers for the same products.	d) Predatory pricing

10.3 REGULATION OF PRICING UNDER THE CONSUMER PROTECTION ACT

The Consumer Protection Act, 2019, provides some measures for regulating two types of pricing practices : 1) excessive pricing, and 2) bargain and deceptive pricing. Let us study these two provisions in detail.

10.3.1 Excessive Pricing

Charging of high prices from the consumers shall invite action under the Consumer Protection Act under the following situations:

- 1) When the price charged is an excess of the price fixed under any law.
- 2) When the price charged is in excess of the price displayed on the goods.
- 3) When the price charged is in excess of the price displayed on any package or container.

Such pricing is sought to be regulated through the instrumentality of the law enforcement agencies set up under the Act. This machinery consists of District Consumer Disputes Redressal Forum set up in each district, State Consumer Redressal Commission set up in each state and union territory and the National Consumer Disputes Redressal Commission at New Delhi.

Action is initiated on a complaint received from any consumer, any recognised and registered consumers association, the Central Government or State Government.

The bodies serve as a special courts set up for the redressal of grievances of consumers against the seller in relation to supply of defective goods, deficient services, charging of excessive prices, and indulging in any unfair trade practice. They enjoy wide powers of replacement of goods, return of the excess amount charged and awarding of compensation for any loss or injury suffered by any consumer or group of consumers.

10.3.2 Bargain and Deceptive Pricing

The meaning attached to bargain and deceptive pricing under the Consumer Protection Act is the same as under the Competition Act. However, the Competition Act does not apply to public undertakings, government managed private undertakings, financial institutions, and cooperative societies. These organisations enjoy a privileged position under the Competition Act, being immune from any action, even against their marketing practices which are considered harmful to the consumer or the public interest. The Consumer Protection Act does not exclude or exempt these organisations from the purview of its regulatory measures.

If the suggestion or indication of the price of a product or the charges for any service materially misleads the public, it will attract punitive action under the Consumer Protection Act. The appropriate machinery is the same as that explained under excessive pricing.

Check Your Progress B

- 1) List the circumstances under which a pricing practice may attract legal provisions of the Consumer Protection Act, 2019.
- 2) What is the three-tier machinery set up under the Consumer Protection Act?
- 3) State whether the following statements are **True** or **False**.
 - i) Deceptive pricing is sought to be regulated under the provisions of both the Competition Act and the Consumer Protection Act.
 - ii) Any consumer can make a complaint regarding charging of price indicated on the label of the product through the Consumer Protection Forum.
 - iii) There is a five tier machinery set up under Consumer Protection Act for redressal of consumer grievances.
 - iv) The Competition Act does not apply to public undertaking.
- i) Action under Consumer Protection Act is initiated only when a complaint is received from a registered consumer association.

10.4 REGULATION OF PRICING UNDER OTHER ACTS

There are some other legislations which seek regulation of pricing policies and practices in India. They are:

- 1) The Essential Commodities Act, 1955
- 2) The Drugs (Price Control) Order (DPCO), 2013
- 3) The Legal Metrology (Packaged Commodities) Rules, 2011

Now let us study the provisions of these Acts in detail.

10.4.1 The Essential Commodities Act, 1955

Hoarding and black-marketing have become very serious problems during periods of shortage. An effective system of control should prevent the creation of artificial scarcity by the unscrupulous businessmen for profiteering. Other major problems in India are the spiralling prices and continuous shortage of certain essential commodities such as edible oil, vanaspati, petrol, kerosene, sugar, tea, soaps, cement, paper etc. The legislative measures for overcoming these problems are incorporated in the Essential Commodities Act, 1955. Under this Act there are two important provisions 1) fixing the prices of essential commodities, and 2) regulation of prices of food items. Let us study these two provisions in detail.

Fixing the Prices of Essential Commodities: The broad principle governing the payment of the prices for the commodities acquired by the central government or any state government are spelt out under Sec 3(3) of the Act. The Government concerned has the discretionary powers in matters relating to the fixation of prices of an essential commodity acquired by it. In such cases, the seller shall be paid the price of the commodity determined in the following manner:

- 1) **Agreed Price :** Where the prices can be agreed upon by the government and the seller in consistent with the controller price, if any, fixed under this sector, the agreed price to be paid.
- 2) **Controlled Price:** Where no agreement as to the price is reached, the price calculated with reference to the controlled price is to be paid.
- 3) **Market Price :** Where there is neither an agreed price nor a controlled price, the price calculated at the prevailing market rate is to be paid.

Regulation of Selling Prices of Foodstuffs

The central government has been empowered by the Act to regulate the selling prices of food stuffs in any locality. Whenever the central government find it necessary to control the rise in prices or prevent the hoarding of any foodstuff, the government regulate their selling price. The prices shall be

determined in accordance with the relevant provisions of the Sec 3(3A) of the Act. The Act also provides for the method of fixation of price for foodstuffs of edible oils acquired by the government. Similarly, the criteria for the fixation of fair price of sugar payable to the producer have been provided in the Act.

The provisions of the Essential Commodities Act have been further strengthened and reinforced by the Prevention of Black Marketing and Maintenance of Supplies of Essential Commodities Act, 1980. Stringent measures have been provided under this Act to prevent black marketing and ensuring equitable supply of essential commodities.

10.4.2 The Drugs (Price Control) Order 2013

To ensure that vital drugs are available at affordable prices, the Department of Pharmaceuticals, Ministry of Chemicals and Fertilizers, under the Government of India, announced the revised Drug (Price Control) Order (DPCO), 2013 to regulate drug pricing across India. The National Pharmaceutical Pricing Authority (NPPA) manage and regulate the pricing of drugs in the country. Under the provisions of DPCO, 2013 only the prices of those drugs which are listed in the National List of Essential Medicines (NLEM) are monitored and regulated. It enables the government to declare a ceiling price for essential and life saving medicines so as to ensure that these medicines are available to the general public at reasonable/affordable prices.

10.4.3 The Industries (Development and Regulation) Act, 1951

The Industries (Development and Regulation) Act (IDRA), 1951 aims at securing an equitable distribution and availability at a fair price of any article or class of articles relating to any scheduled industry. By scheduled industry, we mean industries listed in Schedule 1 of the IDRA, such as consumer goods industries like cotton and woollen textiles, sugar and salt, pharmaceuticals and drugs, capital goods and producer goods like iron and steel.

The Central government may, by a notified order, provide for regulating the supply and distribution thereof and trade and commerce therein, not withstanding anything contained in any other provision of this Act. The central government may make notified order for price and distribution controls. A notified order made in respect of price may provide for:

- 1) Controlling the price at which any such article, or class of articles thereof, may be brought or sold;
- 2) Regulating any person manufacturing, producing or holding in stock such article or class of articles thereof to sell the whole or a part of the article so held in stock to such person or class of persons and in such circumstances as may be specified in the order;

- i) where the price can, consistently with the controlled price, if any, be fixed by agreement the price so agreed upon;
- ii) where no such agreement can be reached, the price calculated by reference to the control price, if any, fixed under this section;
- iii) whether neither clause (i) nor clause (ii) applies, the price calculated at the market rate prevailing in the locality at that date.

10.4.4 The Legal Metrology(Packaged Commodities) Rules, 2011

The Legal Metrology (Packaged Commodities) Rules, 2011 ensures that the end consumer has all the relevant information about packaged goods such as expiry date, weight, price etc., so that the consumer can make more informed choices.

One of the persistent demand of the consumer activity has been that the prices of all packaged commodities, inclusive of all taxes, should be displayed on each package. In order to have a proper control of pricing and certain other aspects of packaged commodities, provisions have been made under the Legal Metrology (Packaged Commodities) Rules, 2011. These Rules require the manufacturers and packers of all commodities sold in packed form to provide the following particulars, conspicuously marked on every package:

- 1) Name and address of the manufacturer
- 2) Common or generic commodity contained in the package
- 3) The net quantity
- 4) The month and the year of manufacture
- 5) The selling price (inclusive of all taxes as per the latest amendment effecting from November 1999)
- 6) The dimensions of the commodity, if relevant.

Thus, it is now obligatory on the part of each manufacturer packet to display the maximum retail price (MRP) of all the packaged commodities offered for sale to consumers. No retailers or other person including manufacturer, packers, importer and whole sale dealer shall make any sale of any commodity in packed form at a price exceeding the retail sale price thereof.

Check Your Progress C

- 1) Name any six commodities which have been declared as essential commodities under the Essential Commodities Act.
- 2) How the price is fixed when the government acquires commodities under the Essential Commodities Act?
- 3) Name the official organisation of the Ministry of Industry concerned with regulation of infrastructure pricing?
- 4) State whether the following statements are **True** or **False**.

- i) Central government enjoys absolute powers in controlling the price of commodities under IDRA.
- ii) Control of price under IDRA applies to every industry irrespective of its nature.
- iii) Drugs also come under the scope of Essential Commodities Act.
- iv) Government can fix the prices of food items and enforce the same.
- v) Retailer can sell the drugs at a price exceeding the maximum fixed price.

10.5 LET US SUM UP

While fixing prices of goods and services or making any modifications, the manufactures and sellers have to be conscious of the relevant provisions contained in various statutory regulations. While the practice of minimum retail price is absolutely prohibited, practices like price discrimination, predatory pricing, bargain and deceptive pricing and excessive pricing attract action under the Competition Act, 2002. The Consumer Protection Act, 2019 provides measures for regulating excessive prices, and bargain and deceptive prices. The Essential Commodities Act, 1955 empowers the government to regulate the distribution and prices of essential commodities. The marketing managers of drugs and essential commodities have to be extra vigilant since their pricing practices are subject to additional regulatory measures under the Drugs Prices (Control) Order, 2013. Moreover, pricing of products manufactured by scheduled industries are regulated under the Industries (Development and Regulation) Act, 1951. Products sold in packet form also attract additional measures of statutory price regulations under The Legal Metrology (Packaged Commodities) Rules, 2011.

10.6 KEY WORDS

Collective Pricing: A pricing policy where manufacturers or sellers of a product enter into an agreement or understanding and fix a common price and or terms of sale for the product.

Collusive Tendering: A practice whereby sellers or buyers of goods or services secretly agree on the prices, or other terms or conditions of sale or purchase, to be quoted in response to a tender.

Predatory Pricing: A pricing policy where seller charges a slashed price for a product which can be even below the cost of that product.

Price Discrimination: A pricing policy where a seller charges different prices to different buyers for the same product.

Re-sale Price Maintenance: A pricing policy whereby the manufacturer sets the retail price for his product.

10.7 ANSWERS TO CHECK YOUR PROGRESS

A 4. i) d ii) b iii) a iv) c

- B 3. i) True ii) True iii) False iv) True v) False
- C 4. i) True ii) False iii) True iv) True v) False

10.8 TERMINAL QUESTIONS

- 1) Explain the provisions relating to following pricing policies :
 - i) Price discrimination
 - ii) Predatory pricing
 - iii) Deceptive and bargain pricing
- 2) Explain the meaning of re-sale price maintenance. Discuss briefly the legal provisions for its regulation in India.
- 3) Describe the provisions of the Essential Commodities Act in so far as they relate to regulation of price.
- 4) Briefly explain the regulatory measures of the Drugs Prices (Control) Order.
- 5) Explain the rules relating to display of retail prices.
- 6) Discuss the role of the Industries (Development and Regulation) Act in the regulation of price.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

SOME USEFUL BOOKS

Indira Gandhi National Open University School of Management Studies, 1989. *Marketing for Managers MS-6*, Indira Gandhi National Open University : New Delhi (Units 14)

Kotler, Philip., Gary Armstrong. *Marketing-An Introduction*, Prentice Hall : Englewood Cliffs. (Chapters 11 & 12)

Neelamegham, S. 1988. *Marketing in India-Cases and Readings*, House : New Delhi. (Chapters 42-45)

Sherekar S.A., 1984, *Marketing Management*, Himalaya Publishing : New Delhi. Sherlekar, (Chapters 14)

Santon, William, J., and Charles Futrell. 1987. *Fundamentals of Marketing*, Graw-Hill : New York. (Chapters 12 & 13)

Verma D.P.S. 1985, *Monopolies Trade Regulation and Consumer Protection (Text and cases)*, Tata McGraw-Hill : New Delhi..

Block

4

DISTRIBUTION

UNIT 11

Channels of Distribution I

UNIT 12

Channels of Distribution II

UNIT 13

Physical Distribution

UNIT 11 CHANNELS OF DISTRIBUTION-I

Structure

- 11.0 Objectives
- 11.1 Introduction
- 11.2 What is a Channel of Distribution ?
- 11.3 Functions of Channels of Distribution
- 11.4 Channels of Distribution Used
 - 11.4.1 Channels of Distribution Used for Consumer Goods
 - 11.4.2 Channels of Distribution Used for Industrial Goods
- 11.5 Factors Influencing the Choice of Channel
- 11.6 Intensity of Distribution
- 11.7 Let Us Sum Up
- 11.8 Key Words
- 11.9 Answers to Check Your Progress
- 11.10 Terminal Questions

11.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning and role of distribution channels in overall marketing of products;
- describe the common distribution channels used;
- outline the factors influencing the choice of a distribution channel; and
- explain the strategies relating to the intensity of distribution.

11.1 INTRODUCTION

You have already studied about the two important elements of marketing mix, viz., product and pricing. You would, however, appreciate that merely producing a good product which has the desired attributes and is beautifully packed, branded and reasonably priced, does not ensure success in the market. It is equally important that the product is made available at a place where the customer would like to buy it. In other words, the product should be available at the right time and at the right place. In order to ensure this, each firm has to take certain strategic decisions for the systematic distribution of its products. One such decision is regarding channels of distribution. The present unit discusses this aspect. In this unit, you will study the meaning, role and functions of a channel of distribution, factors influencing the choice of a distribution channel and the strategies relating to the intensity of distribution.

11.2 WHAT IS A CHANNEL OF DISTRIBUTION ?

The distribution system is concerned with the movement of goods from the point of production to the point of consumption which involves a variety of functions. The main participant in the distribution system are: (1) the manufacturers, (2) the intermediaries, (3) the facilitating agencies, and (4) the consumers. Manufacturers produce the goods. This is the starting point in the distribution system. The second category of participants i.e., intermediaries, are involved in direct negotiation between buyers and sellers whether or not they take title to goods. These intermediaries locate the manufacturers who produce various products, identify the needs of the consumers and distribute the goods. In the process, they perform various functions like buying, selling, assembling, standardisation and grading, packing and packaging risk bearing, etc. Facilitating agencies are the independent business organisations other than intermediaries. These agencies facilitate the smooth distribution of goods from producers, through intermediaries, to consumers. The major facilitating agencies are banking institutions, insurance companies, transportation agencies and warehousing companies. The fourth category of participants in the distribution system i.e., consumers, are the final destination for goods in the distribution system.

A Channel of distribution is mainly concerned with second participant i.e., the intermediaries. The term '**Channel of Distribution**' refers to the route taken by goods as they flow from the producer to the consumer. This flow of goods may mean its physical distribution and/or the transfer of title (ownership). Channels of distribution are mainly concerned with the transfer of title to a product which may be effected directly or through a chain of intermediaries. You know most producers do not sell goods directly to the consumers. They make use of a variety of intermediaries known as middlemen. These middlemen who take title to goods or assist in transferring the title to goods as they move from the producer to the consumer is called the channel of distribution. Thus, **the channel of distribution is a network of institutions that perform a variety of interrelated and coordinated functions in the movement of goods from producers to consumers.**

A distribution channel creates place, time, form and possession utilities to the products by prompt and efficient performance of the function of physical distribution. In modern societies the production of goods takes place on a large scale in factories concentrated in few localities while the consumers are scattered throughout the country. For instance, textile mills are concentrated at few places like Bombay, Ahmedabad, Coimbatore, etc., while the cloth is used by all the people in the country. Similarly, Maruti cars are manufactured at Delhi while the users are spread in all parts of the country. Something is true of agricultural commodities. Apples are produced mainly in Kashmir Valley and Himachal Pradesh whereas they are consumed by people throughout the country. Another such example is tea which is mainly produced in Assam while it is consumed everywhere in the country. Thus,

most of the goods are produced at one place while they are consumed at various other places and therefore it is difficult for the consumers to contact the producers directly. Similarly it is not possible for all the producers to contact the consumers directly and sell the goods. Hence, it is essential to move the goods from the place of production to the markets where consumers can buy them. Otherwise, production has no value and it becomes waste. **A distribution channel helps in the movement of goods from producer to consumer and, thus, creates place utility to the product.**

There is another barrier which arises due to time lag between production and consumption. The goods produced are not consumed at the same point of time. Some goods are produced throughout the year, but their consumption is seasonal. For example, umbrellas and raincoats are used only during rainy season, woollen garments are used only during winter season. In some other cases, goods are produced during specific season while they are consumed continuously throughout the year. For example, food grains are produced by farmers during a particular season but are consumed throughout the year. Thus, in many cases, there is a time lag between production and consumption. **The distribution channel makes it possible for the consumers to get the product whenever they want them and, thus, creates time utility to the products.**

Similarly, a distribution channel makes it possible for the consumer to get the products in a convenient shape, unit size, style and package. Thus, **it creates convenience value.** Distribution channel also makes it possible for the consumer to obtain good at a price he is willing to pay and under conditions which bring him satisfaction and pride of ownership. Thus, **it creates possession utility.** Thus, it is the distribution system which moves the goods from the place of production and makes them available to the consumers at the right place, time and form.

11.3 FUNCTIONS OF CHANNELS OF DISTRIBUTION

The functions performed by distribution channels may be grouped into three categories as follows:

- 1) Transactional Functions
 - 2) Logistical Functions
 - 3) Facilitating Functions
- 1) **Transactional Functions:** Functions necessary to a transaction of the goods are called **transactional functions.** Buying, selling and risk bearing functions come under this category. Participants in the channel of distribution undertake these three functions. Producers sell the goods and intermediaries buy them. Later intermediaries sell the goods and consumers buy them. Because of this buying and selling by the channel participants, title to goods changes hands and goods flow from producer

to consumer. If there is no willingness for buying and selling, there would be no transaction. When goods are bought, it involves risk also. For instance, an intermediary bought goods from the producer with the intention of selling at a profit. But he may incur loss due to fall in price. All the participants in the distribution channel assume such risk of loss.

- 2) **Logistical Functions:** The functions involved in the physical exchange of goods are called **logistical functions**. Distribution channel performs some functions like assembling, storage, grading and transportation which are essential for physical exchange of goods.

Goods are assembled in sufficient quantity to constitute an efficient selling and shipping quantity. Sometimes, it is also necessary to assemble a variety of goods to provide an assortment of items desired by buyers. Grading and packing of goods facilitate handling and sale of goods promptly. Proper storage of goods prevents loss or damage as well as helps regular supply of goods to consumers whenever they want. Transportation makes goods available at places where buyers are located. In the channel of distribution all these functions are performed so that goods may reach market place at proper time and may be conveniently sold to the ultimate consumers.

- 3) **Facilitating Functions:** These functions facilitate both the transaction as well as physical exchange of goods. These facilitating functions of the channel include: post-purchase service and maintenance, financing, market information, etc. Sellers provide necessary information to buyers in addition to after sales services and financial assistance in the form of sale on credit. Similarly, traders are often guided by producers to help them in selling goods, while the traders also inform producers about the customers' opinions about the products.

Thus a Channel of distribution performs a variety of functions such as buying, selling, risk bearing, assembling, storage, grading, transportation, post-purchase service and maintenance, financing, market information, etc. But the relative importance of storage is more important for perishable goods and bulky material such as coal, petroleum products, iron, etc. In the case of automobiles and sophisticated electronic goods like computers, after sales service is very important.

Check Your Progress A

- 1) What is a channel of distribution?
- 2) State whether the following statements are **True** or **False**.
 - i) Only buying and selling activities are carried on by a distribution channel.
 - ii) Transportation is the primary function of a distribution channel.
 - iii) Risk bearing is one of the functions of a distribution channel.
 - iv) In a distribution channel facilitating agencies take title to goods.
 - v) Channels of distribution create convenience value to the goods.

11.4 CHANNELS OF DISTRIBUTION USED

You have learnt about the nature and functions of channels of distribution. We shall now discuss the channels of distribution commonly used by the producers. By and large, channels of distribution used by marketer are as below:

- 1) Direct channel of distribution, (2) Indirect channel of distribution, (3) Multichannel distribution, (4) Digital marketing channel.

1) Direct Channels

When the producers sell their goods directly to the consumers, it is called a direct channel. No middleman is present between the producer and the consumer.

For direct selling, the first option involves supplying the product to the customer using your own salesmen and arranging your own deliveries. The second option is using the medium of post office. You obtain orders from your customers who respond by mail or telephone to your advertisements or to letters mailed directly to their houses. You deliver your products to them through mail or through some other carrier. The next alternative is to establish your own Retail Stores. Bata Ltd., for example, has established its own retail stores throughout the country. This practice has also been adopted on a smaller scale by a number of textile mills which have their own retail shops like Calico Mills, Raymonds, etc. DCM has franchised a number of retailers to sell their products to the consumers.

Direct channel is also called **zero-level channel** as there is no middleman between producer and consumer. The three major ways of direct selling are shown in Figure 11.1.

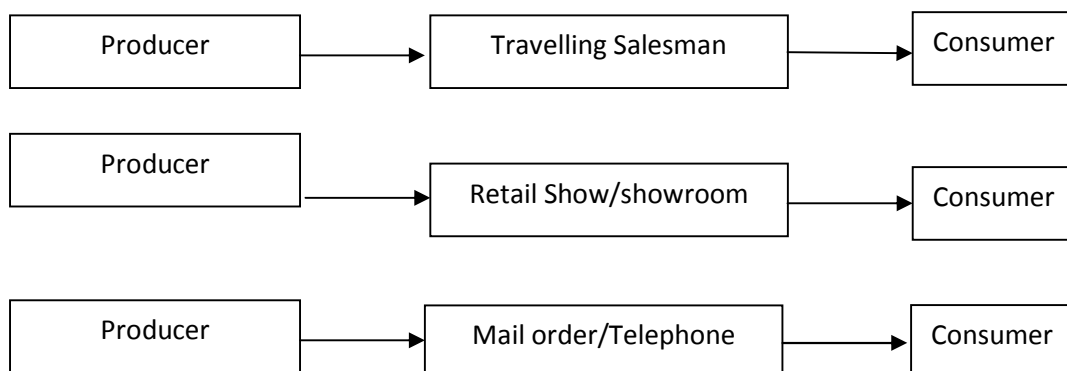


Figure 11.1: Direct Channels of Distribution

An example of direct selling is provided by Eureka Forbes Ltd.(EFL), a Bombay based company which markets vacuum cleaners and water purifying equipment. It believes that if the market is in the customer's house, the best way to get there is to knock at the door. The company has clearly demonstrated that door-to-door selling can be effective in Indian conditions. Its large number of sales force and reach over large number of cities and

towns make it the Asia's one of the largest commercial direct sales organisation. They took the cue from Electrolux, the world's leading manufacturer of vacuum cleaners, and a firm believer in door-to-doorselling.

2) Indirect Channels

In the case of other products, it is not possible for the manufacturer to supply goods directly to the consumers. So middlemen like wholesaler, retailer and mercantile agents may be engaged in the channel of distribution. **When the middlemen are engaged in the distribution channel, it is called an indirect channel.** As shown in Figure 11.2 there could be four indirect channels.

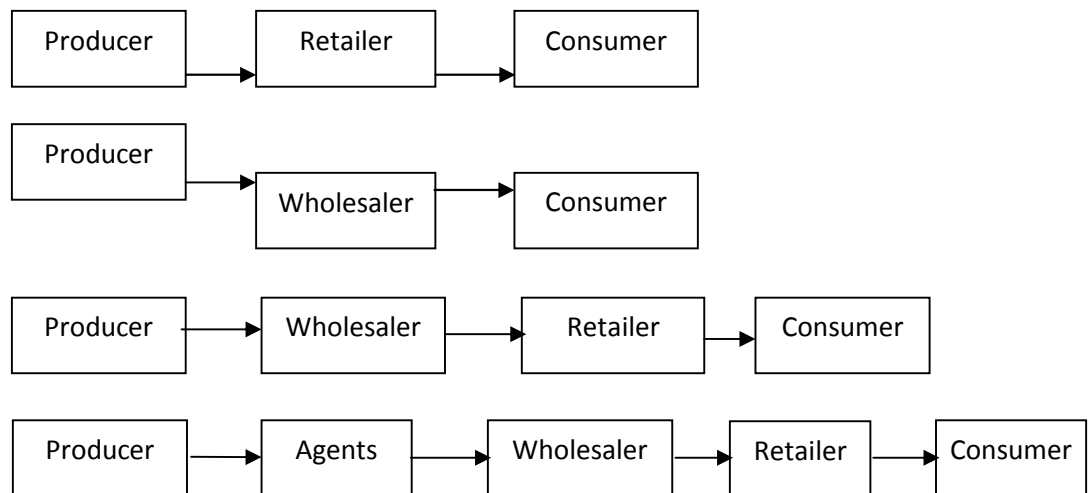


Figure 11.2 : Indirect Channels of Distribution

The manufacturer may supply goods directly to retail traders. In this case, the producer ascertains the requirements of retailers at periodical intervals and goods are supplied accordingly. As and when required, the retailer may also procure goods from the producer's godown located in that region. In the same way, the producer can supply goods to the consumers by using the services of the wholesale trader. Since there is only one middlemen, (either retailer or wholesaler) in these two channels, this is referred to as **one level channel**. Alternatively, the producer can use the services of the wholesaler as well as the retailer. In this case the manufacturer may supply his products in bulk to wholesalers. The retailer may buy periodically from the wholesaler and sell the same to the consumers located in his locality. As there are two middlemen (both wholesaler and retailer) in this channel, it is referred to as **two level channel**. Another alternative channel of distribution consists of mercantile agent, wholesaler and retailer. In this case, the manufacturer deals with a mercantile agent. Then the wholesalers buy the goods from the agents and sell the same to retailers. In turn the retailer sells it to the ultimate consumers. This type of channel is referred to as **three level channel** as there are three types of middlemen involved in the distribution.

3) Multichannel Distribution System

As you know, manufacturers/producers may choose different channels to distribute their products/services to the customers. They can distribute their products/services directly or also indirectly. Today, as the companies have to deal with diverse customer segments, these companies are adopting ‘multichannel distribution system’ which is also known as ‘**hybrid marketing channel**’.

In the words of Philip Kotler, “A distribution system in which a single firm sets up two or more marketing channels to reach one or more customer segments.”

Thus, a multichannel distribution system is when the producers distributes their products/services to customers via multiple channels, such as directly through their own retail shops, salesman or an online market place or website and also through agents, wholesalers and retailers.

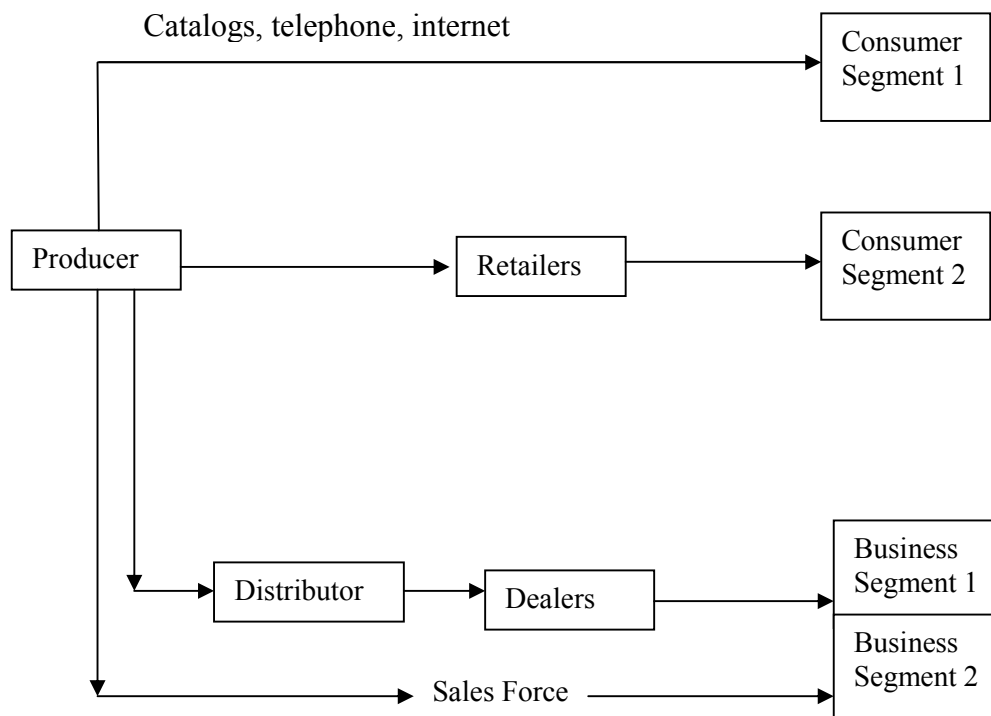


Figure 11.3: Multichannel Distribution System

Source: Kotler, P. et. Al. (2017) Principles of marketing An Asian Perspective (Fourth Edition), Pearson Education Limited, pg 383.

Figure 11.3 shows a multichannel distribution system. The manufacturer/producer has adopted four different channels to distribute its products/services. For selling products to consumer segment 1, he uses catalogs, telephone and internet. The products are distributed through retailers to consumer segment 2. The distribution to Business segment 1 is done through distributors and dealers, and to Business segment 2 through its own sales force.

4) Digital Marketing Channels

With the advent of technology, there is an explosive growth of digital marketing channels which allows the producers or manufacturers and even the resellers to offer their products/services to the customers via websites, mobile applications and social media.

A company can sell its product directly through its own website to the ultimate consumers removing the intermediaries from their marketing channel or it can also refer its customers to their resellers website.

Hotels and travel tickets booking through Trivago.in, downloading music online from apple iTunes, selling and purchasing product from Amazon.com or Flipkart are all examples of digital marketing channel.

As consumers are becoming more familiar with the use of technology, this new form of marketing channel is slowly cutting the traditional brick-and-mortar form of distribution channel.

You have understood that there are number of channels of distribution prevalent. From the producer's point of view, more the number of middlemen used, lesser is the control he can have over the distribution. Let us now examine how these channels of distribution vary from one type of product to another. Basically we can classify the goods into two categories: 1) consumer goods, and 2) industrial goods. Let us now discuss briefly about the channels of distribution used for these two categories of products.

11.4.1 Channels of Distribution Used for Consumer Goods

You know, the goods which are consumed by the household consumers are called **consumer goods**. Under this category, you can find a very wide range of items such as food items, stationery, cars, clothing, Shoes, household electrical appliances, TV sets, mobile phones, etc. The channel of distribution used for different products is not the same. Channels are different from one type of product to the other. Look at Figure 11.4 carefully. It gives the idea about the channels of distribution for some of the consumer goods.

As shown in the figure, consumers sometimes go directly to the factory and buy the goods or order the goods from the catalogue. Durable consumer goods like cars, clothing, furniture, textbooks, shoes, etc., are generally distributed through retailers. In many cases, showrooms are established by the manufacturer himself which undertake the retail trade. For example, Bata Shoe Company sells shoes through its showrooms. Consumer goods like auto spare parts, stereos, video recorder, etc., are distributed through wholesalers and retailers. Consumer goods of daily need like food grains, sugar, salt, edible oil, soap, paper, pencils, etc., are generally distributed through agent or broker, wholesaler and retailer.

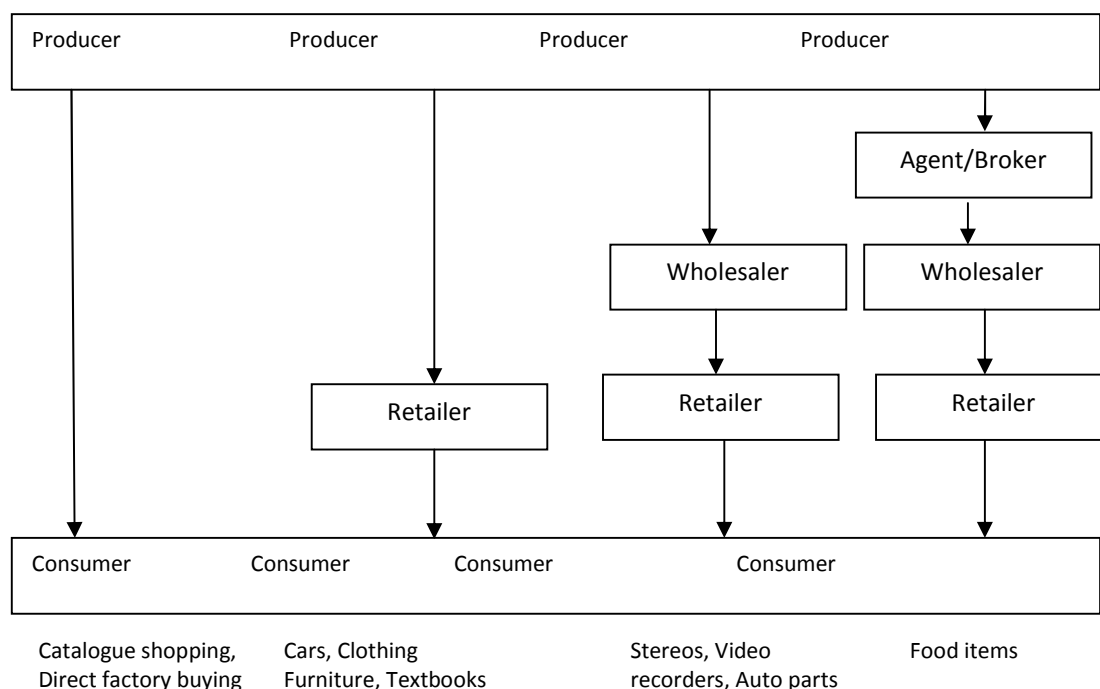


Figure 11.4 : Channel of Distribution for Consumer Goods

11.4.2 Channels of Distribution Used for Industrial Goods

As you know, the goods which are consumed for further production of goods are called **industrial goods**. Under this category, there are variety of products such as machinery, equipment, industrial raw materials (e.g., sugarcane, cotton, coffee, oilseeds, iron ore etc.), electrical and electronic components, etc. The channels of distribution are not similar for all the products under this category. Look at Figure 11.5 carefully. It presents the major channels of distribution for some of the industrial goods.

High value industrial goods like mainframe computers, aircraft, heavy machinery, etc. are supplied directly to the buyers. In these cases manufacturers procure orders by email on the basis of catalogues and price lists. Sometimes salesmen are also used to contact the buyers. Relatively less expensive items like trucks, conveyor systems, etc., are supplied through distributors. You know industries consume many agricultural products. For instance, tea leaves are processed to prepare tea powder which we use for preparing tea. Agricultural products like corn, coffee, soyabeans, etc., are procured by the industrial buyers through agent middlemen. When electrical components are imported from foreign markets, they are procured through an agent and industrial distributor.

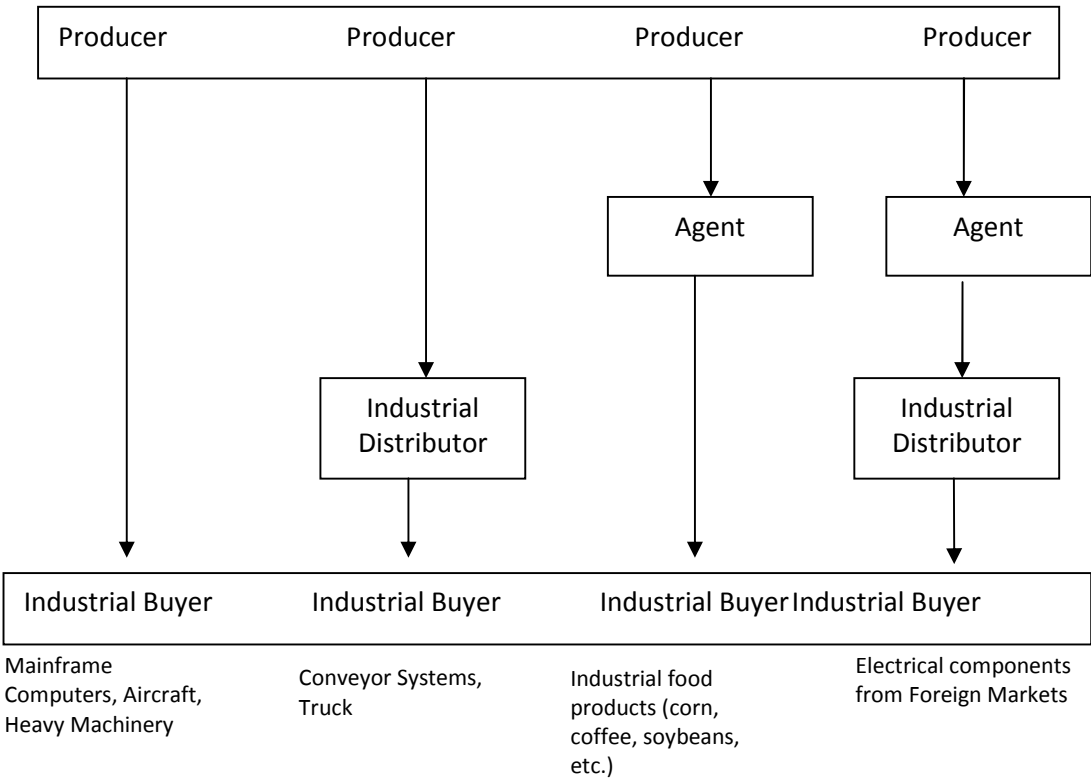


Figure 11.5 : Channels of Distribution for Industrial Goods

Check Your Progress B

- 1) Distinguish between a direct channel and an indirect channel.
- 2) From which type of intermediary (wholesaler/retailer/dealer/showroom) you buy the following items.

Items	Types of Intermediary
i) Bread
ii) Milk
iii) Shoes
iv) Wooden Furniture
v) TV Set
vi) Children's Garments
vii) Vegetables
viii) Sweets

- 3) Visit a local Retail Store in your neighbourhood area and find out what type of items he procures from manufacturers, wholesalers and distributors.
- 4) Write the names of two items which are distributed under the following channels:
 - i) Manufacturer —> consumer.

ii) Manufacturer → wholesaler → consumer

.....

iii) Manufacturer → wholesaler → retailers → consumer

.....

11.5 FACTORS INFLUENCING THE CHOICE OF CHANNEL

We have learnt that there are a number of channels used for distributing the goods. There are direct channels and indirect channels, short channels as well as long channels. We also learnt that the different channels are used for different types of products. When there are alternative channels available, the selection of an appropriate channel becomes a very important decision for the producers. The choice of a channel for distribution of any product should be such that it should effectively meet the needs of customers in different markets at reasonable cost. The factors which generally influence the choice of the channel of distribution may be categorised under four group as follows:

- 1) Market considerations
- 2) Product considerations
- 3) Middlemen considerations
- 4) Company considerations

Product Considerations

- 1) **Perishability:** The nature of the product influences the choice of channel. Perishable products like eggs, milk, etc., are supplied either directly or through the short channels. If long channels are opted for perishable goods, they may get spoiled by the time they reach the consumer. So products which are perishable must be speeded through the short channels.
- 2) **Bulkiness:** In the case of heavy and bulky products (e.g., cement, steel, heavy machinery, etc.) where distribution and handling costs are more, short channels are preferred. On the other hand, long channels are found in the case of light-weight and small-size items like dress material, readymade garments, pocket calculators, stationery, toothpaste, toothbrush, etc.
- 3) **Technical nature of the product:** Sophisticated electrical and electronics equipment which require careful handling are also generally distributed directly or through short channels. In the case of sophisticated equipment like computers and xerox machines, considerable amount of presale and post sale service is required. Wholesalers and retailers may not be able to provide such services. So manufacturers often distribute

them directly. However, simple mechanical products like electronic toys, time-clocks, etc., are supplied through long channels for intensive distribution.

- 4) **Product value:** Unit value of the product is also an important consideration while deciding the channel of distribution. Normally larger channels are preferred for products whose unit value is low. However, short channels may be equally economical when such products are sold in bulk or are combined with other products.

Market Considerations

- 1) **Size of the customers:** If the number of customers is large, long and multiple channels are necessary for intensive distribution of goods. Short channels and direct selling are possible in the case of fewer customers purchasing large quantities at regular intervals and if they are concentrated in a small area.
- 2) **Potential volume of Sales:** The choice of channel depends upon the target volume of business. The ability to reach target customers and the volume of sales varies among different channels. If one outlet is not adequate for achieving the target, more channels need to be used. Of course, the competitive situation must be taken into account while examining the potential volume of sale through different channels.
- 3) **Concentration of buyers:** If the buyers are concentrated in a few areas, it is possible for the manufacturer to establish sales divisions in such areas and sell directly to the buyers. Thus, short channels may be feasible when buyers are concentrated in fewer locations. On the other hand, if buyers are spread over a large geographic area, channels may become uneconomical and the manufacturer may have to go for long and multiple channels.
- 4) **Size of the purchase order:** Manufacturer can distribute directly or through a short channel in the case of large scale buyers. Normally long channels are effective and economical in the case of buyers whose purchase orders are usually too small to justify direct sale.

Middleman Considerations

- 1) **Types of middlemen:** Availability of suitable middlemen in the channel of distribution is another factor in the selection of the channel. This is because different functions like standardisation, grading, packing, branding, storage, after-sale servicing, etc., are expected to be performed by middlemen. Efficiency of distribution depends upon the size, location and financial position of middlemen. If the middlemen in a specific channel are dependable and efficient, that channel may be preferred by producers.

- 2) **Channel competition:** There are different situations in which manufacturers compete with each other for availing the services of particular wholesalers. Similarly, wholesalers often compete with each other to deal with particular retailers or carrying particular brands of products. Sometimes producers use the same channel which is used by their competing producers. If any producer arranges exclusive distribution through a particular wholesaler, the other producers also do the same. Thus selection of a channel may depend on the competition prevailing in the distribution system.
- 3) **Availability of middlemen:** The producer may wish to make use of the services of specific category of middlemen, but such middlemen may not be available in the market. They may be carrying the competitors' products and may not wish to add another product line. In such situations, the manufacturer has to make use of the services of the middlemen whoever available in the market.

Company Considerations

- 1) **Cost of distribution:** The various functions carried out in the channel of distribution add to the cost of distribution. While choosing a channel, the distribution costs of each channel should be calculated and its impact on the consumer price should be analysed. A channel which is less expensive is normally preferred. Sometimes, a channel which is convenient to the customers is preferred even if it is more expensive. In such cases the choice is based on the convenience of the customers rather than the cost of distribution.
- 2) **Long-run effect on profit:** Direct distribution, short channels, and long channels have different implications with regard to the profits in the short-run and long-run. If demand for a product is high, reaching the maximum number of customers through more than one channel may be profitable. But the demand may decline in course of time as competing products appear in the market. It may not be economical than to use long channels. So while choosing a channel one should keep in mind the future market implications as well.
- 3) **Experience and ability:** A manufacturer who has reasonable experience and expertise in marketing the products may prefer to distribute his products on his own.

But the manufacturers who do not have marketing know-how prefer to make use of the services of middlemen.

- 4) **Financial strength:** Lots of financial resources are required to establish a distribution system. So only a financially strong manufacturer can establish his own distribution system and a financially weak firm may have to depend on middlemen.

- 5) **Extent of channel control:** Producers who want good control over the distribution of their products prefer short channels. Controlling of the channels is necessary to undertake aggressive promotion, to maintain fresh stocks and retail prices.

Thus, in making a choice, the manufacturer has to consider his objectives, resources and the channels available to him, nature of the product and characteristics of the buyers. He would like to use the channel of distribution which will produce the combination of sales volume and cost that yields him the maximum amount of profit. There are no set guidelines for channel selection and the manufacturer will have to make his own decision in the light of his own judgment and experience. However, companies douse multiple channels of distribution to ensure that their products reach the maximum number of people.

The task of manufacturer does not end after the channels have been selected. He has to review the services performed by the agencies involved at fairly frequent intervals, keep in close touch with the developments related to the distribution of his product and seek to improve his marketing methods constantly. He may also realise that the best channel when the product was introduced, may not be the most effective one when the product is established. The following criteria may be used for the evaluation of channel members: i) their sales performance, (ii) their marketing capabilities, iii) their motivation to increase the volume of sales, (iv) competition faced by them, and (v) their growth prospects.

11.6 INTENSITY OF DISTRIBUTION

As discussed earlier, the number of levels in a channel may range from one level which is the most direct (manufacturer-user) upto three levels, depending upon various factors. After deciding the number of levels, each firm has to decide about the number of intermediaries at each level of the channel. Here comes the question of intensity of distribution. **Intensity of distribution refers to the number of intermediaries at each level of marketing channel.** Let us assume that a manufacturer of refrigerators has opted for a one level structure consisting of the manufacturer, retailer and consumer. The decision with respect to intensity of distribution in this case concerns the number of retailers who would be selling the firm's product. In other words, whether a few retailers would be entrusted the role of distribution or a very large number of retailers would be employed to distribute the firm's products. In short, three broad alternative options are available to a firm with regard to intensity of distribution. These are: 1) intensive distribution, 2) selective distribution, and 3) exclusive distribution. Let us learn them in detail:

- 1) **Intensive Distribution Policy:** Intensive distribution policy refers to sale of products through a very large number of outlets. This policy aims

at giving maximum exposure to the product for sale in the market. Generally the producers of convenience goods such as soft drinks, cigarettes, eggs, bread, toilet soap, biscuit, toothpaste, chewing tobacco, etc., adopt the policy of intensive distribution. All these products have low unit cost but are purchased frequently and have large turnover.

The objective of this policy is to reach every potential buyer so that not even a single chance of making a sale is missed. It enables the firm to spread distribution overhead cost over a wider network of dealers and minimise delay in communication in reaching a large number of buyers. However, it is an expensive policy as the firm has to collect and serve small orders from a large number of outlets.

- 2) **Selective Distribution Policy:** As the name suggests, this policy puts a limit to the number of outlets that will be carrying a product. Thus, as against using all possible intermediaries at a particular level, a careful selection is made of the outlet through which the product will be distributed. The manufacturers of shopping goods such as fabrics, fans, washing machines, coolers, TV sets, mopeds, scooters, etc., (for the purchase of which the consumers are willing to make some extra efforts) generally opt for selective distribution.

The policy is more suitable for products having brand preferences because the consumers of such products are expected to approach the channel used by the firm. As the marketing firm does not have to dissipate its efforts over many outlets, including many marginal ones, this policy is less costly than the intensive distribution policy. Also it enables the manufacturer to gain adequate market coverage with greater control as compared to the intensive policy.

- 3) **Exclusive Distribution Policy:** Under this policy, a limited number of dealers are granted the exclusive right to distribute the firm's products in their respective territories. Under this policy, there is an agreement between the manufacturer and middlemen where the manufacturer commits to channelise his products exclusively through the middleman in the whole market or a part thereof. The middleman, in turn, serves the manufacturer exclusively in terms of the products handled and the market served. When an agreement is made with an agent middlemen, it is known as **sole selling agency**. But when such agreement is between a manufacturer and a merchant, it is known as **dealership** at wholesale level and **distributionship** at retail level.

Exclusive distribution policy is particularly suitable for those products which are slow-moving, have high unit value and require after sales service. Thus, a large number of manufacturers of mopeds, scooters, cars, trucks, etc., adopt exclusive distribution policy for their products. For example, Maruti Udyog Ltd., Ashok Leyland. Bajaj Scooters, and

Lohia Machines Ltd., have appointed dealers/distributors in different territories for the distribution of their products.

The policy of exclusive distribution allows maximum control over prices, promotion, services, etc., by the manufacturer firm. Thus, exclusive distribution is usually undertaken when the manufacturer desires more aggressive selling on the part of middleman or when increased control over distribution is deemed to be important. Another advantage of exclusive distribution is that it leads to specialisation on the part of the dealer which results in improved after-sales services to the customers. However, there may be problems in getting cooperation from the dealers. As such there is a need for careful management of the channel members in this arrangement. Also, many a time such arrangements in our country have been declared anti-competitive by the Competition Commission.

The decision with respect to intensity of distribution is an important aspect of channel structure and is often considered as a key factor in the firm's basic marketing strategy. It also reflects the firm's overall business policies. For example, marketing strategy that seeks to blanket the market with a product would require a channel structure that has a very high level of distribution intensity. But a low intensity or a high degree of selectivity would be required to be built into the channel structure when the marketing strategies focus on carefully chosen target market. In general, when a firm's basic marketing strategy requires mass appeal for its products, intensive distribution is used. But when the strategy calls for stressing more narrow segmentation, a more selective channel is used.

Check Your Progress C

- 1) Distinguish between multiple channels of distribution and intensive distribution.
- 2) Distinguish between selective distribution and exclusive distribution.
- 3) What is intensity of distribution?
- 4) List out the factors which influence the choice of channels of distribution.
- 5) State whether the following statements are **True** or **False**.
 - i) Normally direct channel is preferred for heavy engineering machinery.
 - ii) Intensive distribution policy is followed for distributing bread.
 - iii) Intensive distribution means using multiple channels for the same product.
 - iv) Direct channel is suitable when there are a few big buyers concentrated in one area.

- iv) Manufacturer can have more control over distribution in the case of show channels.

11.7 LET US SUM UP

Channel of distribution refers to a network of institutions that perform a variety of interrelated and coordinated functions in the movement of products from producer to consumers. Distribution channels play a very important role in achieving the marketing objectives of an organisation. They create time, place, ownership and convenience utilities to the product and thereby add to its value. The functions performed in the channels of distribution are of three kinds: (i) transactional functions which are necessary for purchase and sale, (i) logistical functions which are required for physical exchange of goods, and (iii) facilitating functions which facilitate the transactions as well as physical exchange.

Channels of distributions can be grouped into two categories: (1) direct selling by manufacturers (direct channel) and (2) use of middlemen such as agents, wholesalers and retailers (indirect channel). Channels of distribution for consumer goods of daily use consist of agents or brokers, wholesalers, and retailers as intermediaries. Durable consumer goods are generally distributed through showrooms of manufacturers, or through retailers called dealers. Capital goods are often sold directly by manufacturers. Sometimes distributors, dealers or agents are employed for supply of such goods.

The choice of a channel for the distribution of any product depends upon a number of factors such as characteristics of the product (perishability, bulkiness, technical nature, unit value), nature of the market (size of the customers, concentration of buyers, size of purchase order, potential volume of sales), middlemen considerations (type of middlemen, channel competition, availability of middlemen) and company considerations (cost of distribution, long-run effect on profits, experience and ability, financial strength, extent of channel control). However, while selecting the channel, manufacturer will have to make decision in the light of his own judgment and experience. Normally most of the companies use multiple channels of distribution to ensure that their product reaches the maximum number of people.

The channels of distribution perform all such functions which facilitate transfer. A significant decision in the area of channels is with respect to intensity of channels which means deciding about the number of intermediaries to be used at each level of marketing channel. The three alternative options with respect of intensity of distribution are (i) intensive distribution, (2) selective distribution, and (3) exclusive distribution. In general, when a firm's basic marketing strategy requires mass appeal, for its products, intensive distribution policy is adopted. But when the strategy calls for stressing more narrow segmentation, a more selective channel is used.

11.8 KEY WORDS

Channel of Distribution: A network of institutions that perform all the activities necessary for moving a product and its title from the manufacturer to the ultimate consumers or users.

Digital Marketing Channels: Use of online or internet enabled marketing channels for distribution of goods and services.

Direct Distribution: The method of distribution under which manufacturers directly sell the product to consumers without engaging any intermediary.

Exclusive Distribution: Distribution of products through some limited outlets which are granted exclusive rights to distribute the firm's products in their respective territories.

Indirect Distribution: The method of distribution under which the products are moved from producers to users with the help of one or more intermediaries.

Intensive Distribution: Distribution of products through a very large number of intermediaries at each level of marketing channel.

Multiple Channels of Distribution: Simultaneous use of different channels for the same product.

Selective Distribution: Distribution of products through a limited number of intermediaries at each level of the distribution channel.

11.9 ANSWERS TO CHECK YOUR PROGRESS

A 2 i) False ii) False iii) True iv) False
 v) True

C 5i) True ii)True iii) False iv)True v)True

11.10 TERMINAL QUESTIONS

- 1) A new soft drink manufacturing company which has successfully launched its cola and lemon drinks in Mumbai is planning to introduce these products to the other three metropolitan cities in the country. What kind of distribution channel would you recommend to the company? What factors would you take into consideration while selecting the appropriate channel for this company?
- 2) In your opinion which policy (intensive, selective, or exclusive) is suitable for distributing the following products? Give reasons also.
 - i) Cotton fabrics
 - ii) Readymade garments for children

- iii) Industrial machinery
 - iv) Soft drinks
 - v) Washing machines
 - vi) Fast food products like Potato Chips, Noodles, etc.
- 3) A company at present is selling its products directly to institutions and other buyers through a network of fifty salesmen. You have to persuade the company to discontinue direct selling and switch over to selling through intermediaries. What do you suggest.
- 4) What is a channel of distribution ? What factors do you keep in mind while selecting distribution channel for your product ?
- 5) Channels of distribution are different for different products. Why ?
- 6) What do you mean by direct channels and indirect channels? Explain the channels used for consumer goods and industrial goods.
- 7) A channel of distribution creates various utilities to the product ?Discuss.
- 8) “As consumers are becoming familiar with technology, a new form of marketing channel is cutting the traditional brick & mortar form of distribution channel.” Comment.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

UNIT 12 CHANNELS OF DISTRIBUTION-II

Structure

- 12.0 Objectives
- 12.1 Introduction
- 12.2 Meaning and Role of Middlemen
- 12.3 Types of Middlemen
 - 12.3.1 Functional Middlemen
 - 12.3.2 Merchant Middlemen
- 12.4 Wholesalers
 - 12.4.1 Classification
 - 12.4.2 Functions
 - 12.4.3 Services
- 12.5 Retailers
 - 12.5.1 Functions
 - 12.5.2 Services
 - 12.5.3 Classification
- 12.6 Trends in Wholesaling and Retailing
- 12.7 Let Us Sum Up
- 12.8 Key Words
- 12.9 Answers to Check Your Progress
- 12.10 Terminal Questions

12.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the meaning and role of middlemen in the distribution of goods;
- classify the middlemen;
- describe the functions of mercantile middlemen;
- discuss the meaning, importance, functions and classification of wholesalers and retailers; and
- explain the recent trends in wholesaling and retailing.

12.1 INTRODUCTION

In the previous unit you have learnt that a number of intermediaries such as agents, distributors, wholesalers, retailers, etc., operate in moving the goods from producers to consumers. To be able to appreciate the channel system

fully, it is important to understand the specific roles performed by each of these intermediaries. In this unit, you will study the role of intermediaries, classification of intermediaries, and specific functions and services rendered by wholesalers and retailers. It also explains the recent trends in wholesaling and retailing.

12.2 MEANING AND ROLE OF MIDDLEMEN

The term middlemen refer to the business organisations which are the link between producers and consumers of goods, and render services in connection with the purchase and/or sale of products as they move from producer to the consumers.

Some people often question the wide use of middlemen and feel that it may not only delay the availability of goods but also add to the cost of distribution and hence, the price charged from customers may be higher. But it is not the case in practise. In fact, the middlemen play a very useful role in the distribution of goods by providing a variety of functions at reasonable cost. They undertake all the channel functions (such as assembling, grading, packaging, storing, financing, risk-bearing, etc.). We may however put them more specifically as follows:

- 1) **Creation of utilities:** By performing various functions in the process of distribution middlemen create place utility, time utility, convenience utility and ownership utility in the goods and services. Thus, the channels greatly help in market by adding value to the products. In fact, in the case of several consumer products, the value added in distribution is higher than that added during manufacture/production.
- 2) **Economy in effort:** Middlemen greatly increase the efficiency of the exchange process by reducing the amount of effort on the part of the manufacturers contacting the consumers. This, in turn, reduces the total cost of distribution of the products. For example, assume that there are five manufacturers and ten customers. Now look at Figure 12.1 carefully and study the number of contacts required when all the five manufacturers contact the ten customers directly. Study Figure 12.2 carefully where the manufacturers used the services of a middleman.

It is evident from the figures that there is considerable economy of effort in the second case (Figure 12.2) where a middleman is in the distribution process. There is a net saving of 35 contacts in this situation as compared to the first situation in which there is no intermediary. Assuming that it costs Rs. 20 to make one contact, the cost of distribution in the first situation would be Rs. 1,000 as compared to Rs.300 in second situation.

Distribution

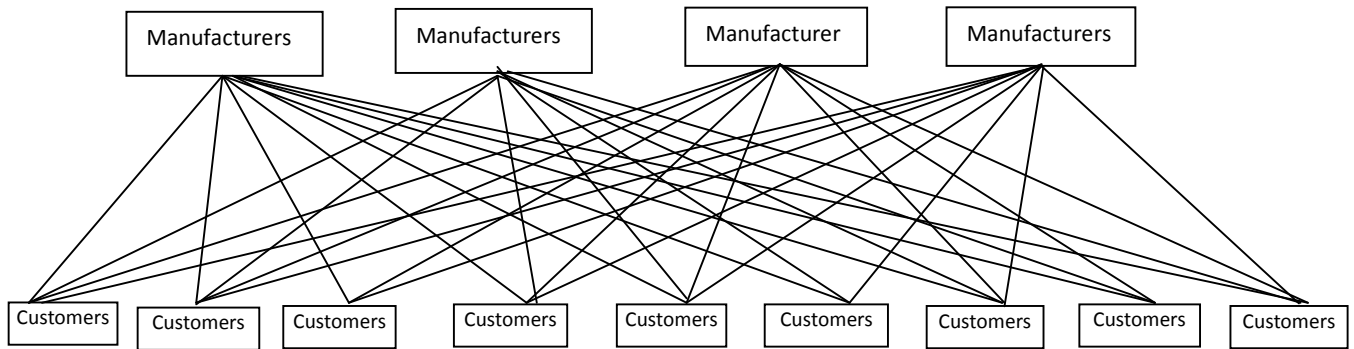


Figure 12.1: Number of contacts when the Manufacturers Contact the Customers

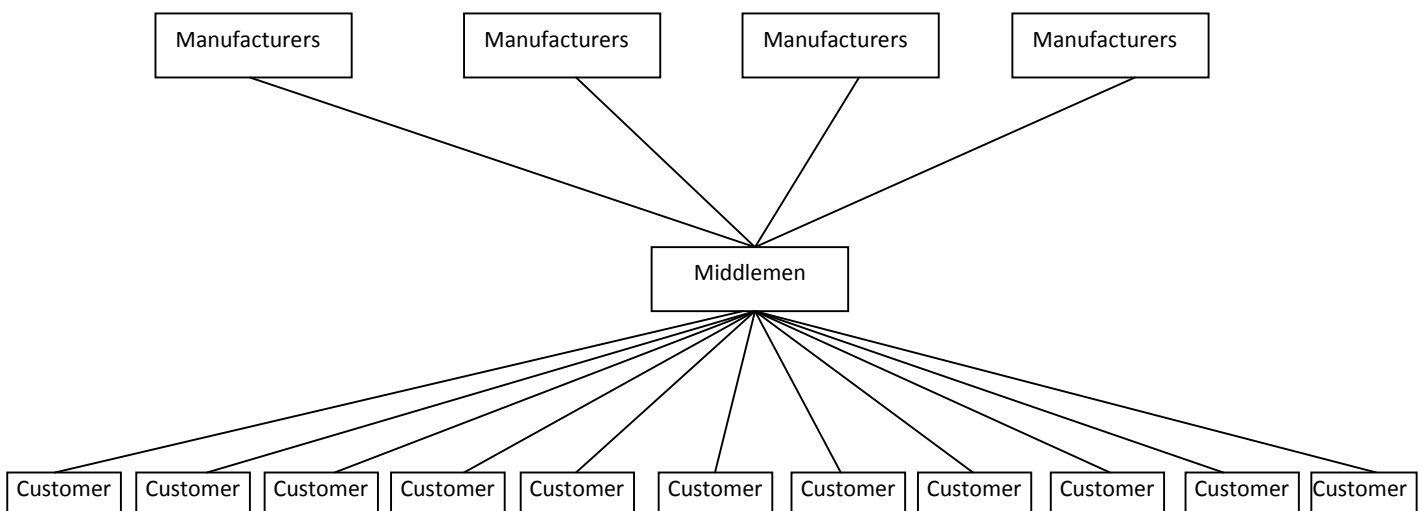


Figure 12.2: Number of Contacts when the Services of a Middleman is used

- 3) **Market coverage:** With the increasing liberalisation in trade, the products manufactured at one place have to be distributed throughout the length and breadth of not only one country but many nations of the world. This vast coverage is possible only through effective management of the distribution channels.
- 4) **Provide local convenience to consumers:** Merchant middlemen like retailers are located at convenient shopping centres. They provide ready delivery of goods to the consumers at the convenient points.
- 1) **Provide field stocks:** The agents and wholesalers are spread all over the country. They buy in bulk and keep the goods in stock. The retailers can approach them any time and buy their requirement. The producers, therefore, need not stock their goods in different cities which would be quite a cumbersome activity involving huge investment and management problems.
- 2) **Financing:** The agents finance the distribution activity in many ways. They often pay cash for their bulk purchases from the producers and even advance money to them against their orders. The funding of field stocks is thus fully handled by the middlemen.

- 7) **Servicing:** They arrange for the after sales services and handle all kinds of complaints by the consumers locally. The manufacturer does not have to open his own service centres at all places.
- 8) **Help in promotion:** They also help the sales promotional activity through displays and salesmanship. It is literally impossible for the producers to organise such activity more effectively through any other means. Even otherwise, the middlemen being local people are more effective.

Apart from the variety of services provided by the middlemen, what makes their role more important is the fact that they handle them more efficiently and usually at a reasonable cost. They are better equipped to perform these functions because they possess special knowledge and skills, experience and contacts. The manufacturers would find it very difficult to organise the distribution network and provide the necessary funds. You should remember that the distribution of goods and provision of essential services is a gigantic task which involves huge funds and management problems. By making use of middlemen the manufacturers are freed from the botheration of distribution. They can concentrate on production activity which may be more profitable. Not only that, in case of mass consumption items it is almost impossible for the producers to organise direct sale in every nook and corner of the country.

12.3 TYPES OF MIDDLEMEN

Different types of middlemen participate in the process of movement of goods and its title from producers to ultimate users. These may broadly be grouped into two categories as: 1) primary participants and 2) ancillary participants.

The **primary participants** are the individuals or organisations which undertake to perform the negotiatory functions of selling and transferring title of the goods to others. These participants are called the channel members. The **ancillary or facilitating participants**, on the other hand, are the group of institutions and parties that assist channel members (primary participants) in performing the distribution tasks. They do not take part in the channel decisions but only provide services to channel members once the basic channel decisions have been made. The most common facilitating participants are financing institutions, public warehouses, transportation companies and advertising agencies. Of course some of these services can be undertaken by the channel members themselves. For example, a merchant wholesaler can operate private warehouse and trucks. But the essential feature of the facilitating participants is that they assume limited risk or no risk in the functioning of the channel.

We will study in detail about the facilitating participants in Unit 13. We shall concentrate the discussion on primary participants in this unit. Broadly speaking primary participants may be further classified as: 1) functional

middlemen or mercantile agents, and 2) merchant middlemen. Now let us study these two categories in detail.

12.3.1 Functional Middlemen

Those who undertake various marketing functions in the process of distribution of goods without having ownership rights are called **functional middlemen**. These functional middlemen operate on behalf of owners. They perform a specific function or undertake general functions relating to purchase and sale. These middlemen are called '**mercantile agents**'. Depending on the functions performed, the functional middlemen may be classified into five categories. Let us discuss them briefly.

- 1) **Factors:** A middleman who keeps the goods of others and sells them with the approval of the owner is known as a 'factor'. The goods are normally in his possession or under his control. With the approval of the owner the factor can sell the goods as agent, or sell in his own name, or pledge goods in his possession or can do all such acts as can be done by the owner of the goods. After the sale of goods, he receives the payment from the buyer. He receives commission at a fixed percentage on sales from his principal.
- 2) **Brokers:** They take neither possession nor acquire ownership of the goods, but only serve to bring the buyers and sellers together. They negotiate purchase and sale of goods on behalf of other parties. Their task is over as soon as the buyer and the seller come to terms in respect of the purchase or sale of the goods. When a broker acts, on behalf of the buyer, he is known as **buying agent**. If the owner of goods employs a broker for sale of the goods, the broker is known as a **selling agent**. The broker works for a certain percentage of commission on the business transacted by him on behalf of his principal.
- 3) **Commission Agents:** They also sell goods on behalf of the sellers. But they differ from brokers in that they not only negotiate the sale of goods but also take possession of the goods and make arrangements for the transfer of title to the goods. The commission agent has to perform the functions of warehousing, grading, packing or sampling in addition to assembling and dispersion. For their services, the commission agents get a certain percentage of commission on sales. If the commission agent is authorised to sell on credit and agrees to bear the risk of bad debts for some additional commission, he is known as a **del credere agent**.
- 4) **Del Credere Agents:** Generally if any mercantile agent sells goods on credit with the approval of the owner, he is not responsible for any loss which may arise due to non-payment by the buyer. The owner or principal has to bear the risk of loss on account of such bad debts. When a mercantile agent sells the goods on credit and assumes the risk of bad debts, he is known as a del credere agent. For bearing such risk of bad

debts, additional commission as a fixed percentage of the amount of credit sales is given to him. This additional commission is called **del credere commission**. In other words, the del credere agent bears the loss which may arise on account of bad debt and the owner is protected against the loss.

- 5) **Auctioneers:** Middlemen appointed as agents to sell goods by auction are known as auctioneers. They assemble goods from different parties and act on their behalf to sell them to intending buyers. The date and time of auction are announced in advance. Goods are displayed for inspection by interested buyers. Bids are then invited by the auctioneer from those present at the time of auction. Sometimes a minimum price is fixed for specific items known as **reserve price** and bids are not accepted below that reserve price. The goods are sold to the highest bidder. The auctioneer gets commission from the principal (seller) as a percentage on the sale price.

12.3.2 Merchant Middlemen

Middlemen who act on their own right buying and selling goods at a profit are called **merchant middlemen or merchants**. They acquire title to the goods and bear the risks of trade besides performing various functions like storing, grading, packing and packaging, etc. Merchant middlemen may be divided into two categories.

- 1) Wholesale traders
- 2) Retail traders

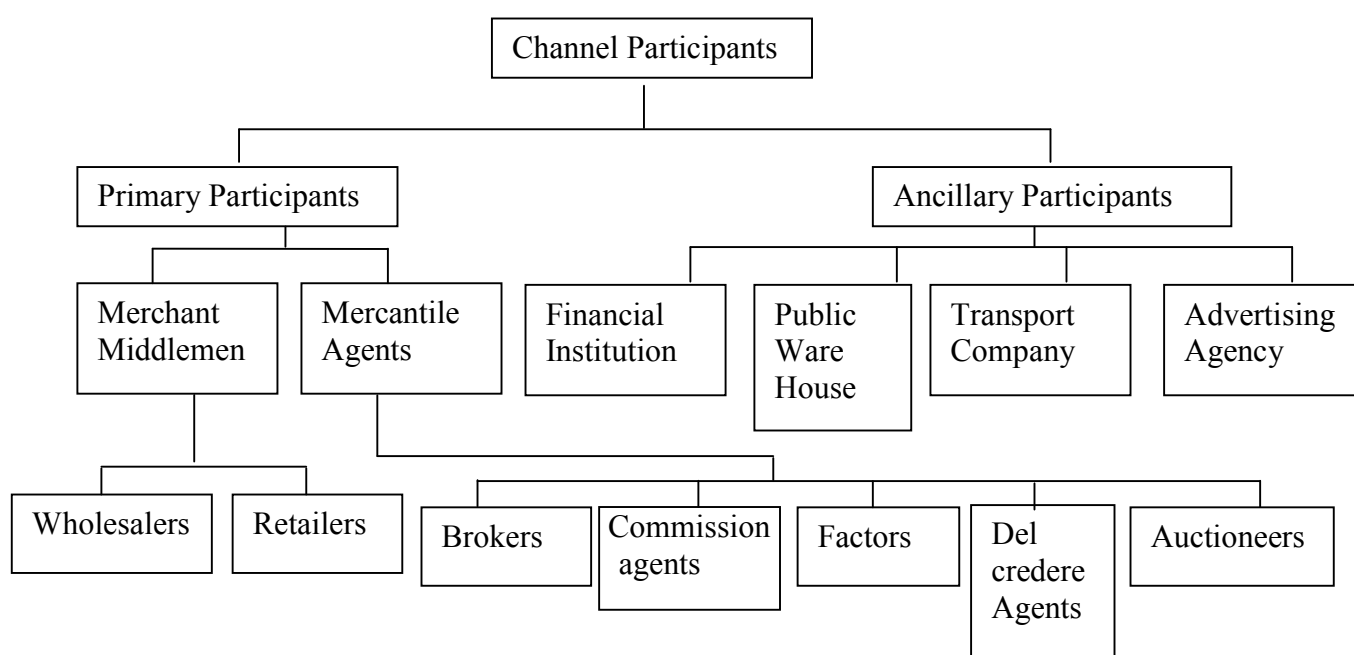


Figure 12.3 :Classification of Middlemen

Merchants who buy goods from producers or manufacturers or their agents and sell the same to industrial consumers or retail traders are known as **wholesale traders**. The middlemen who buy goods from producers or wholesalers and sell the same to ultimate consumers are known as **retail traders**. Thus, retailers act as the final link in the channel of distribution. You will study in more detail about wholesalers and retailers later in this unit.

Look at Figure 12.3 carefully for the summary of the discussion on classification of middlemen.

Check Your Progress A

- 1) Differentiate between functional middlemen and merchant middlemen.
- 2) Differentiate between broker and commission agent.
- 3) Who is a middleman?
- 3) State whether the following statements are **True** or **False**.
 - i) Middlemen who undertake marketing functions without having title to goods are called merchant middlemen.
 - ii) Middlemen do not bear risk in the distribution of goods.
 - iii) With the approval of the owner, a factor can do all such acts as can be done by owner of the goods.
 - iv) A del credere agent is not responsible for any loss which may arise due to non payment by the buyer.
 - v) Brokers operate only on behalf of buyers,
 - vi) In the process of distribution, functional middlemen do not take title to goods.

12.4 WHOLESALERS

Simply stated, wholesalers are those who happen to be engaged in wholesaling or wholesale trade. In a broad sense, any individual or business firm selling goods in relatively large quantities to buyers other than the ultimate consumers may be called a wholesalers. Thus manufacturers who sell their products directly to retailers may be regarded as wholesalers. However, **in a more specific sense the term wholesaler may be defined as a merchant middlemen engaged in buying and reselling of goods to retailers and other merchants, or to Industrial or Commercial users.** Wholesalers do not sell the products to ultimate consumers. The wholesalers belong to the category of merchant middlemen who acquire title to the goods they handle. Agents or brokers may also act as wholesale middlemen but they do not acquire the title to goods. Wholesalers act as middlemen between producers or importers of goods on the one hand, and retailers or industrial

users on the other. The goods traded by wholesalers may include: agricultural commodities, forest products, minerals as well as manufactured goods.

Manufacturing companies often do not have adequate capital to employ salesmen to contact the large number of retailers. Many small retailers run their business in remote areas and to contact them may be too expensive. Moreover, small retailers generally prefer to buy products in small quantities due to their limited capital, lack of market information and sources of supply. The wholesalers solve the problems of manufacturers as well as small retailers. A wholesaler can place sufficiently large order with the manufacturer keeping in view the requirements of a number of small retailers in his area. In that process, the wholesaler is in a position to meet the small orders of retailers.

From the society's point of view, distribution of goods may be efficient because of the specialised knowledge and skill of wholesalers. On the other hand, manufacturers can concentrate on efficient production of goods. Naturally, they do not undertake the distribution of their products because their efficiency in manufacturing would suffer on account of divided attention.

12.4.1 Classification

Wholesalers may deal in a large or limited variety of products, restrict their activities mainly to wholesaling or perform various functions incidental to their trade, and may operate in small or large geographical territories. Accordingly, wholesalers may be classified on three different bases: (1) merchandise dealt with, (2) method of operation, and (3) coverage of geographical area. Look at Figure 12.4 for classification of wholesalers.

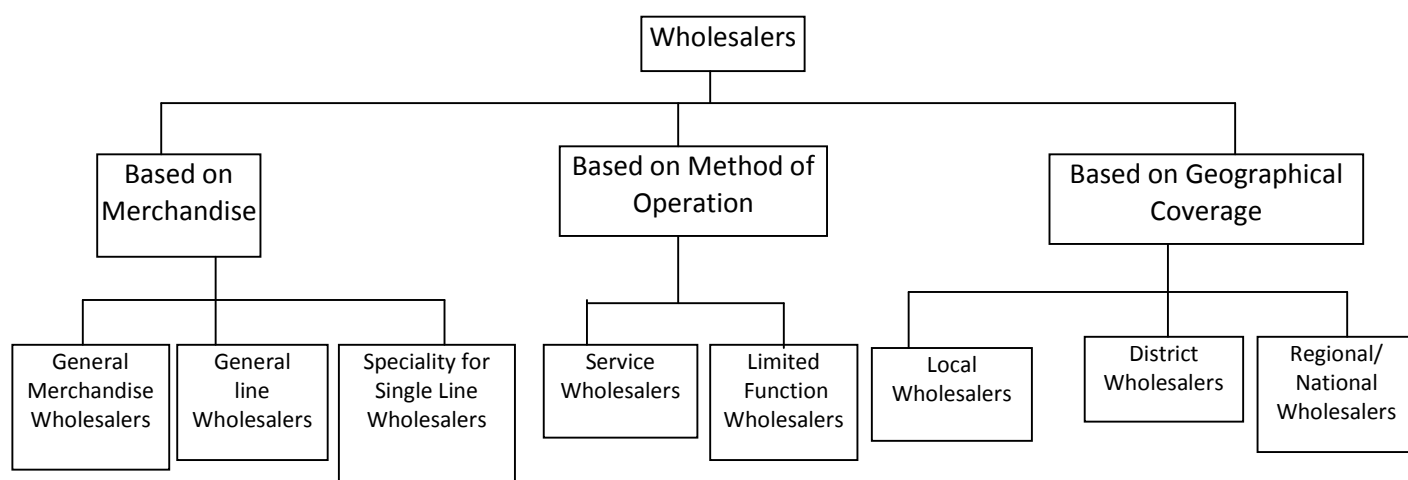


Figure 12.4 : Types of Wholesalers

Merchandise Basis

On the basis of goods dealt with by the wholesalers, we may distinguish three types of wholesalers:

- i) **General merchandise wholesalers** – those deal in two or more unrelated types of products. For instance, a merchandise wholesalers are those who deal in a number of consumer durables like electrical goods, sports goods, cosmetics, hosiery etc.
- ii) **General-line wholesalers** – those who carry a number of goods in the same product line. For instance, a wholesaler may carry convenience goods of daily household necessity like soaps, detergents, toothpaste, razor blade etc., or may stock cereals and provisions like wheat, rice, dal etc.
- iii) **Single-line or specialitywholesalers**-those who restrict their operation to a narrow range of products or specific products. Wholesalers dealing in a few varieties of (cloth), or carrying varieties of printing paper only may be called speciality wholesalers, or single-line wholesalers.

Method of Operations

On the basis of the method of operations, wholesalers may be divided into two categories:

- i) **Service wholesalers** - Those who perform a variety of functions like advertising, grading, branding, packaging, etc., on behalf of manufacturers and retailers.
- ii) **Limited function wholesalers** - Those who undertake to carry out a few limited functions, like packaging or grading.

Geographical Covered

On the basis of the geographical coverage of dealings, wholesalers may be grouped into three types:

- i) **Local wholesalers** — those who restrict their operation to a particular city or town and supply products to retailers in that area.
- ii) **District wholesalers** - those who have dealings with retailers located in a district.
- iii) **Regional or national wholesalers** — those who specialise in products having a nationalmarket and are nationally advertised. They have dealings with retailers located in a region or a country.

12.4.2 Functions

In the preceding section we have learnt that wholesalers perform limited functions or undertake a variety of functions. Actually, the functions of a wholesaler depend upon the nature of the products dealt with and the business policy of that particular wholesaler. Of course every wholesaler must carry out the minimum functions of buying, storing and supplying one or more products. Besides these primary activities, several other functions may also be performed by wholesalers.

The wholesalers perform the following important functions of marketing:

- 1) **Assembling:** The wholesaler collects varieties of products from different manufactures and keeps them in stock for sale to the retailers at the time when they need them.
- 2) **Dispersion:** The products assembled and stocked by the wholesalers are supplied to the retailers who may be widely scattered.
- 3) **Warehousing:** The goods purchased by the wholesalers from the manufacturers and producers have to be stocked in warehouse pending for their sale to the retailers. The arrangement for such storage is the responsibility of the wholesalers.
- 4) **Transportation:** The wholesaler has to move the goods from the various factories to his own warehouse and from there to the retail stores. He may do so either by employing his own vans or by hiring public carriers.
- 5) **Financing :** The wholesaler in most cases provides goods on credit to the retailers.
- 6) **Risk-assuming:** The wholesaler assumes the risk arising out of the changes in prices and demand as also loss due to spoilage or destruction of goods in his warehouse.
- 7) **Grading and Packaging:** The wholesaler has to sort out different grades of products according to quality and other considerations and pack the goods into smaller lots for retailers.
- 8) **Price fixation:** The prices of goods which consumers have to pay depend upon the prices fixed by wholesalers and charged from retailers. This is an important function performed by wholesalers because a number of factors including prices of competing goods, effect of prices on demand, etc., have to be taken into account.

12.4.3 Services

We have already learnt how wholesalers serve manufacturers and retailers by buying goods in large quantities, holding stocks and supplying smaller quantities to the retailers. In that way the wholesalers act as a bridge between producers and retailers. Let us now examine closely the services rendered by wholesalers to the manufacturers and retailers.

Services to Manufacturers: Wholesalers provide the following services to the manufacturers:

- 1) The wholesalers place large orders with the manufacturers or procure large quantities of goods from manufacturers. Thereby manufacturers are relieved of the task of marketing their goods, and they can concentrate on production only. Manufacturers need not necessarily hold large stocks in

their godown. Hence, there is saving of expenses on storage and warehousing.

- 2) Wholesalers remain in close touch with the retailers. They get regular information from the retailers about changes in the consumer's demand for particular products as also about competing products. On the basis of such information, wholesalers place orders with manufacturers. Thus, wholesaler's purchase orders reflect the changing market conditions. Hence, the volume of production can be regulated by the manufacturers in accordance with the changing market conditions as reflected by the wholesaler's purchase orders.
- 3) Often the wholesalers place orders in advance on the basis of their expectations regarding future demand of products even though the current demand is low. This helps manufacturers to continue their production on an even pace.
- 4) Wholesalers may also participate in the advertising of products jointly with the producers, which is of great advantage to both the parties.

Services to Retailers: Wholesalers render the following services to retailers:

- 1) A variety of goods can be procured by retailers in small quantities from the wholesalers. Most retailers serve a large number of customers. Thus, different types of products have to be stored by a retailer to meet the needs of individual consumers. It is difficult for him to buy the products from different manufacturers in small quantities. He can easily do so by contacting a few wholesalers.
- 2) Small retailers can get repeated supplies of products from wholesalers. Thus they can be able to run their business with a relatively small amount of capital. Large stocks are not to be held by them, so there is saving of storage space as well.
- 3) Wholesalers have expert knowledge of the lines of products they deal with. They procure the items from the best sources, that is from producers who supply the best quality at competitive prices. Retailers also get advantage of the wholesalers specialised knowledge of the products.
- 4) Retailers are protected from the risk of loss which would arise if they were to hold large stocks of any product. It is the wholesalers who bear the maximum business risks arising out of falling demand for products.
- 5) Most wholesalers supply goods on credit to the retailers. This enables small retailers to pay for the goods after sale or customer payment on account. The working capital required for retail trading is thus relatively small.

- 6) Generally retailers come to know about new products only through the wholesalers who deal with manufacturers. Whenever any new product is introduced, wholesalers bring it to the notice of retailers either through salesmen or display in showrooms.

Check Your Progress B

- 1) Who is a wholesaler?
- 2) Visit a wholesaler in your area and find out the following:
 - i) Whether he deals in general merchandise or general line or single line.
 - ii) The services rendered by him to the retailers.
- 4) Whether the following statements are **True** or **False**.
 - i) Wholesalers do not sell products to ultimate consumers.
 - ii) Wholesalers sell goods to industrial users.
 - iii) Wholesaler is a mercantile agent.
 - iv) General line wholesalers deal in a very narrow range of products.
 - v) A local wholesaler normally have dealings with retailers located in a region/state.

12.5 RETAILERS

In simple words retailing refers to all transactions which involve sale of goods to the ultimate consumers for personal consumption. If the buyer uses the goods for reselling purposes it will not be treated as a retailing transaction. Any individual or business unit or shop primarily engaged in retail selling is known as **a retailer or retail store**. In a general sense, even a manufacturer or wholesaler may sometimes engage in sale of goods to the ultimate consumers. But they are not called retailers as retailing is not the major activity of such a manufacturer or wholesaler. Thus, **a retailer or retail store is one whose business consists primarily of sale of goods to consumers for their own use, but not for resale in business**. Retail business may include other types of transactions also. It will be treated as a retailing business if more than half of its total sales revenue is from retail trading.

A retailer is a middleman because retailing involves procuring goods from suppliers (generally wholesalers) and selling them to consumers for the personal use. Retailers perform the very important task of making goods available to consumers, which after all is the objective that underlies the production of goods. Retailers thus form a vital link in the channel of distribution of products.

Since the retailers deal with a large number of consumers of many different categories, the role of retailers in the physical distribution of goods is clearly of vital importance. The retailers act as a link between the producers or wholesalers on the one hand and the consumers on the other. Without retailers, neither the products would sell in distant places, nor would it be possible for consumers to buy goods of their choice in shops located nearby. Due to large-scale manufacture of a wide variety of consumer goods and the necessity of making them available to individuals living in distant villages, cities and towns, retailers are now regarded as the most important middlemen in the chain of distribution of goods.

12.5.1 Functions

Like the wholesalers, retailers also perform a variety of functions connected with the buying and selling of goods. They, in brief perform the following functions:

- 1) **Estimating the demand:** All retailers - big or small have to make an estimate of the demand for different products and have to determine the nature of products that consumers need to be supplied.
- 2) **Procurement of goods:** Most retailers deal in a variety of products. So they may have to procure goods from different wholesalers. Besides, they must decide to buy from those wholesalers who supply goods suited to the requirements of consumers considering the quality and price.
- 3) **Transportation:** Usually the retailers are to arrange the transportation of goods procured from the wholesalers' place. Sometimes delivery is also arranged by the wholesalers on the basis of orders placed with their salesmen.
- 4) **Storing goods:** Small-scale retailers have limited space for the goods to be kept in stock. Large retail stores often have godowns to store different varieties of goods in adequate quantities. But in all cases, goods have to be held in stock so as to meet the customer's needs. For this purpose storage of goods must be so arranged that customers may be served without delay. They must be given an opportunity to select goods of their choice. This is often done by display of goods on shelves and in show cases.
- 5) **Grading and packaging:** Large-scale retailers often have to sort out goods according to the quality and price to be charged. They also make convenient packages of goods for the benefit of consumers. For instance, fruit vendors purchase apples in containers (boxes), sort out on the basis of size and charge different rates for different sizes. Spices which are procured in bags, may be divided into small packets of 100 or 200 grams each.

- 6) **Risk-bearing:** Since goods are held in stock, the retailers are to bear the risk of loss on account of deterioration of quality, fire, theft, etc. Large retail stores are insured to cover the risks of theft or fire. But losses due to damage or deterioration of quality caused by improper storage cannot be insured.
- 7) **Selling:** The main function of retailers is selling the goods to ultimate consumers. They have to satisfy the needs and preferences of different types of customers and deal with them tactfully and politely so as to make them regular buyers.

12.5.2 Services

As middlemen engaged in the distribution of goods, retailers deal with wholesalers and consumers. Manufacturers as well as wholesalers depend a great deal on retailers for reaching the ultimate consumers to supply various products. Retailers provide the necessary outlet for goods and thus render very useful service to the wholesalers and in several ways also to the producers indirectly. The services of retailers to the consumers are significant in several ways:

- 1) By holding ready stocks of various commodities required by the consumers, retailers relieve the customers of the need for stocking a wide variety of goods which could be extremely inconvenient and cumbersome.
- 2) By keeping a good assortment of the various varieties of a particular product, say soap, toothpastes, etc., retailers provide a wide variety of choice to their customers.
- 3) By proper display of new products, the retailers keep the consumers informed about the changing trends in production of different varieties of goods, besides helping manufacturers to promote the products.
- 4) Retailers very often guide their customers about the relative merits of the various brands of a particular product and thus help them in the selection of goods.
- 5) Retailers may provide special facilities to their customers, for example, free delivery, extension of credit, after-sales service, etc.

12.5.3 Classification

Broadly speaking, we may divide the retailers into two categories as: 1) itinerant retailers, and 2) fixed shop retailers. Fixed shop retailers can be further classified as: 1) Small scale retailers, and 2) large scale retailers. All these categories can be further classified as shown in Figure 12.5

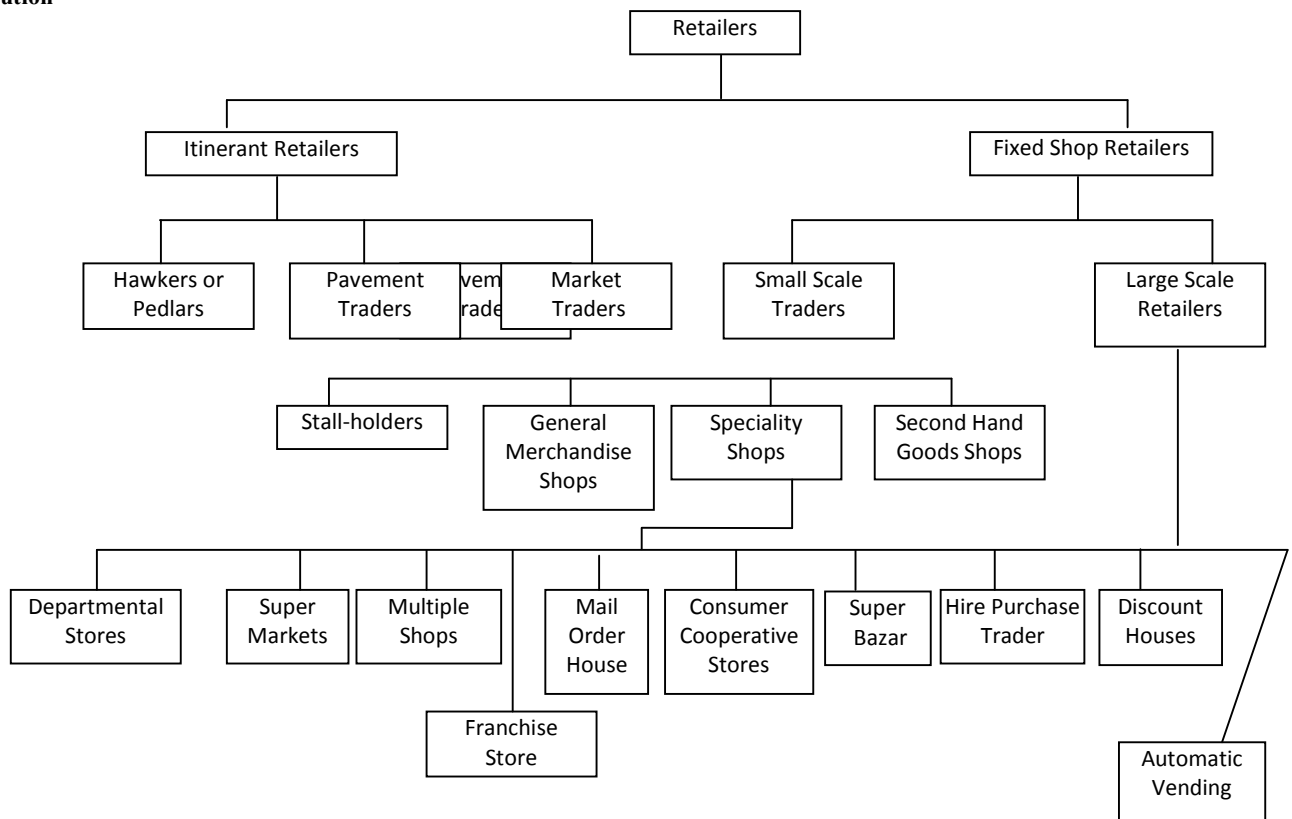


Figure 12.5 :Classification of Retailers

Itinerant Retailers

Retail traders who carry on business moving about from place to place to sell their goods are known as itinerant retailer. They do not have any fixed place of business. They either move from house to house with their goods, or change their place of business frequently according to convenience and sales prospects. Thus, these itinerant retailers move about and try to reach as nearer to the buyer as possible. There are three types of itinerant retailers. Let us learn them.

- 1) **Hawkers or pedlars:** These retailers move from door to door in residential localities and sell their goods which may consist of vegetables, fruits, utensils, toys, ice cream, snacks, etc. They carry their articles in bags or trays hanging from shoulders, on bicycles or push carts, small motor vans or horse-drawn carriages.
- 2) **Pavement traders:** Pavement traders are found in busy market areas, street crossings, in front of railway stations and bus terminals. The goods traded by them include items like hand bags, cut-pieces of cloth, readymade garments, footwear, household utensils, toys, books and journals, pens and pencils, fruits, vegetables, etc. These traders sometimes put up temporary sheds or make-shift platforms for display of goods. More often they spread their wares on pavements at different places depending on the prospects of sale.

- 3) **Market traders:** This type of itinerant retailers generally sell their goods in weekly markets held in small towns or villages. They move from one market to another in the neighbouring places on specific days fixed for the market.

Services of Itinerant Retailers : These retailers serve consumers at the nearest and the most convenient places. They serve either at the consumers' door-step or on busy places which consumers normally visit. Thus, housewives and working people find it very convenient to buy goods from itinerant traders like hawkers and pavement traders. Market traders in small towns and villages are also very useful to the consumers as they do not have fixed shops within easy reach. All itinerant retailers save time and effort of customers in buying articles of ordinary use. Housewives have the satisfaction of shopping leisurely at their doorstep.

Small-scale Retail Shops

Small-scale retail shops include those small shops dealing with miscellaneous products of regular use, and shops selling particular products of different varieties. They hold small stocks and do their business in fixed shops located in residential areas or market places. According to the nature of goods sold, the small retail shops may be divided into three categories as follows:

- 1) **Stalls on streets:** Small shops on the road side are very common in cities and towns. These are set up as stalls in front of large stores or in residential area selling a limited variety of products of regular use like stationery, grocery, toilet products, biscuits, etc. The shops are located within easy reach of consumers' residence or nearby roads or street-crossings, or bus stops. These retailers meet the needs of customers at convenient locations. They supply goods of regular use for which customers are not prepared to go to central markets.
- 2) **General merchandise shops:** These are small retail stores which deal in all types of general consumer goods of regular use including provisions, bread, butter, stationery and toiletry, paper and pencils, cigarettes, matches, etc. The shops are located in thickly inhabited residential areas and busy markets. Consumers find it convenient to buy all their requirements in one shop. Regular buyers are also offered home delivery services and credit facility.
- 3) **Speciality shops:** Small retail shops which deal in only one or two special types of goods are known as speciality shops. The goods dealt with may be only electrical fittings of different kinds, or medicines, or motor parts, or books and stationery, or bread and confectionary items, or ready-made garments, or toys, etc. People often find it convenient to buy their requirements from these shops due to the availability of different grades and sizes in the small product line.

Large-scale Retail Shops

Large-scale retail shops are so called because they deal in a large variety of goods, and have large volume of business. The types of fixed shops in this category include the following:

- 1) Departmental Stores
- 2) Super Market
- 3) Multiple Shops or Chain Stores
- 4) Franchise Stores
- 5) Mail Order House
- 6) Consumer Co-operative Stores
- 7) Hire Purchase Traders
- 8) Discount Houses
- 9) Super Bazars
- 10) Automatic Vending Machines

We shall now discuss briefly the characteristics of each of these types of retail shops.

Departmental Stores

A departmental store is a large-scale institution comprising a number of departments, each department specialising in a separate line of products. All these departments are under one roof and one unified control. Department stores offer the widest possible choice of products. The consumer can find all what he needs in one store rather than moving around from shop to shop. These stores are located in central places in big cities so that they are easily accessible to customers. Bigger department stores offer a great number of amenities like restaurants, post and telegraph offices, recreation rooms and car parking. A department store indulges in decentralised buying and centralised selling. In fact, department store is a medium of mass merchandising.

Departmental stores grew up in developed countries mainly to cater to the requirement of well-to-do people who required articles of high quality and looked forward for comfortable shopping. But they have also become popular in urban centres in many developing countries. In India too, we find a number of department stores such as Big Bazar, Spencer's etc.

Advantages: Departmental stores have the following advantages:

- 1) Departmental stores make shopping convenient to consumers by providing them a whole range of goods in one building.
- 2) The central location attracts a large number of customers leading to a large turnover. Thus, they can afford to make large profits even with smaller margins.

- 3) Bulk-buying by Departmental stores enables them to obtain heavy discounts from manufacturers, and thus buy at a cheaper rate. There are savings in freight charges as well.
- 4) Departmental stores can afford to have effective advertising through press, radio and television and thus they are able to attract more and more customers.
- 5) Being large business units, departmental stores can afford to employ skilled and expert staff for all their operations and thus they are able to achieve a high degree of efficiency in their working.

Disadvantages: Departmental stores suffer from the following limitations:

- 1) Experience has shown that operating costs of departmental stores tend to become very high because of the necessity to run some departments at a loss to attract customers and heavy emphasis in service. As a result, more often, their goods may be marked at higher prices.
- 2) Central location also involves higher rents and thus higher overheads. Central location may not be convenient to persons living in far off places which means that they will make their purchases of articles of everyday use from nearby shops. However, in recent years, departmental stores have branched themselves out to suburban areas as well to reach the customers nearer their location.
- 3) It may not be possible for customers in general to receive personal attention which is possible when they deal with small retailers.

Super Markets

Supermarkets are large, low cost, low margin, high volume, and self service operations designed to serve the customer's need for food, laundry and household maintenance products. Supermarkets lays emphasis on **self-service**, here the products are displayed in such a way that buyers can easily select the products on their own and get them billed at the counter.

Though India is among the world's largest food and grocery market, the traditional small Kirana stores continue to dominate the FMCG retail. However many developments are taking place in this form of retail outlets in India. Supermarket operators like Reliance Fresh, Easyday, DMart and many others are expanding their outlets across the country and attracting customers by maintaining a large variety of all the goods of daily necessity under one roof.

Co-operative Stores

Consumers sometimes join together to form co-operative societies to sell goods on retail basis. The basic purpose is to eliminate middlemen and obtain their requirements at a lower price. The capital is subscribed by the members through the purchase of shares of small denominations. Co-operative stores

purchase their requirements in bulk, from manufacturers or wholesalers. This enables the co-operative stores to sell their products at somewhat lower prices than the ordinary retailers. These stores usually sell on cash basis and thus avoid the loss due to bad debts. Some example of department stores run on co-operative basis are: Central Government Employees consumer Co-operative Stores popularly known as Kendriya Bhandar in Delhi, and TUCS Kamadhenu, and Amudhan in Chennai.

Advantages: Co-operative stores have the following advantages:

- 1) Consumers can be sure of the quality of goods in the sense that there is no possibility of an adulteration practiced by some retailers in the private sector.
- 2) These stores are able to offer various products at more reasonable prices than most other retailers.
- 3) Consumers are assured of availability of certain products even when there is an overall shortage in the market and that too at reasonable prices. Retailers usually take advantage of such situations by either increasing prices or earmarking supplies to their favoured customers.

Disadvantages: Co-operative stores suffer from the following limitations:

- 1) Consumers do not patronise these stores regularly, coming to these stores only in times of shortages.
- 2) In practice, they have not been able to reap the benefit of bulk purchases from manufacturers.
- 3) Large Co-operative stores tend to suffer from all the drawbacks of bureaucratic management.

Multiple Shops or Chain Stores

The multiple shop system denotes an organisation which controls a number of stores under one common ownership and management. The various stores are located in various cities and in various localities of bigger cities. Multiple shops refer to a group of retail stores dealing in similar types of goods. The basic idea behind the establishment of the multiple shops is to approach the customer in his vicinity unlike department stores which seek to attract customers to a central location. These shops could be operated by manufacturers or by wholesalers with the basic objective of eliminating retailers. Bata Shoes is an example of product for which multiple shops have been opened by manufacturers in India. Some textile mills also have some shops of their own in bigger cities. If wholesalers decide to operate multiple shops, they indulge in centralised buying with decentralised selling. Some of the important features of these shops are:

- 1) Each shop deals in the same type of goods and products.

- 2) The goods dealt are generally those meant for everyday use.
- 3) There is a high degree of standardisation and uniformity in the interior layout of stores, window displays and outward appearance.
- 4) A uniform policy of sales is adopted.

Advantages: Multiple shops have the following merits:

- 1) Multiple shops are able to offer lower prices due to the economies of bulk buying.
- 2) As sales are on cash basis, losses on bad debts are eliminated and accounting is also made simpler.
- 3) Rapid turnover and common advertising for all shops make the operation of multiple shops economical.
- 4) Any shortage of goods faced by one branch can be easily made up by transfer from some other branch in the same city.
- 5) Since advertising material and interior layout of each shop is similar, each shop serves to advertise the other shops. This leads to further economy in advertising and a quicker turnover.

Disadvantages: Multiple shops suffer from the following limitations:

- 1) Multiple shops cannot offer the variety of choice which department stores or even ordinary retail stores offer.
- 2) These shops do not normally offer home delivery service or credit sales and thus lose a good number of customers.
- 3) Each unit is controlled by the head office and thus branch managers cannot adjust their sales policy to local conditions and emerging opportunities.
- 4) Limitations of bureaucratic organisation usually creep in so that the shop personnel tend to lose initiative.

Franchise Store

A franchise store refers to an organisation which is formed as a result of a contractual agreement, where an independent retailer called **franchisee** enters into an agreement with a producer/manufacturer called **franchisor**. This is formed to use a franchisor's brand name and to sell their products in return for a fee or commission on sales. The Franchisee must adhere to the guidelines of the agreement regarding the mode of operation of the stores. Mostly the franchisee makes investments in terms of premises, interiors and equipments while the stocks and management is done by the franchisor. Companies like Adidas, Raymonds, McDonalds, Subway are examples of franchise store.

Advantages: The advantages of Franchise Store are as follows:

Distribution

- 1) It helps the franchisors (producers) to expand their business and reach more customer without incurring additional cost for store set up.
- 2) A franchisee gets the benefits and recognition of a pre-established brand name.
- 3) A franchise gets benefits in the form of training and assistance for management of the store.

Disadvantages: The disadvantages of Franchise Store are as follows:

- 1) The Franchisees (retailers) do not have independent control over the business.
- 2) The Franchisor's brand goodwill may suffer if the franchisee does not maintain the standards.

Mail-order House

Retail trading which consists of receiving orders by mail and delivery of goods by parcel post is known as mail-order business. The mail-order house is thus a retail trading organisation which uses the post office or couriers as its channel of distribution. Standard consumer goods with trade marks or brand names are generally dealt with by mail-order houses. This is because customers are to place orders without physically checking the items. Under Traditional methods orders from customers may be secured by advertising in newspapers or journals. Sometimes circular letters are issued by mail to certain categories of customers. Customers are invited to send their orders by post to the address of the mail-order house. Delivery is made by V.P.P. (Value Payable Post). Goods are thus available to the customers on payment of the price which is remitted by the post office to the sender of goods. Now a days, advantage of internet is taken. Knowledge advantage of internet is taken. Retailers provide online catalogues through e-mail, website and social media to sell their products ones and payment from clients are also accepted online.

Mail-order business helps customers to get their requirements at their own place which save the time and expenses of shopping. Goods can be procured according to the order received. Thus, the business can be started with a small amount of capital. A wide market can be covered by means of postal communication.

Hire Purchase Trading

Hire- purchase trading consists of supplying durable goods for use by customers who agree to pay the price by instalment at regular intervals. The buyer acquires ownership of the goods only after the total price has been paid. In other words, in hire-purchase the buyer takes possession of the goods, but does not get the ownership until the last instalment has been paid. The instalments are regarded as hire charges. If there is default in paying an

instalment, the seller has the right to recover the goods or sue the buyer for the balance amount due.

Durable goods like refrigerators, television sets, radio, sewing machines, electric fans, automobiles, industrial machinery, air-conditioners, etc., can be sold by hire-purchase trading houses. The instalments payable by the buyer includes interest on unpaid balance. Hence, the total price paid is relatively higher than in the case of outright cash purchase. But the customers get the advantage of deferred payment, as in the case of purchase on credit, and is also able to use the goods meanwhile. Hence, hire-purchase becomes attractive as a means of saving large initial payment required for outright purchase of goods.

Discount Houses

Large scale retail establishments which offer discounts on the prices are known as discount Houses. Durable goods like household appliances (cooking ovens, electrical gadgets, etc.) camera, binoculars, etc., are generally available through discount houses at a relatively lower price as compared with the price charged by other retail stores. This is possible as the discount houses directly purchase from manufacturers and operate the business on a low margin of profits. They expect to cover expenses and make substantial profits through large volume of sales. Brand factory is a popular example of this type of retail store in India.

Super Bazars

These are large retail stores organised by Co-operative Societies which sell a variety of products under a single roof. The goods traded by Super Bazars include consumer goods which are procured at wholesale rates from manufacturers or wholesalers. The stores are operated either on the principle of self-service or with separate counters served by salesmen. The difference between a Super Bazar and Super Market is that the former is organised by co-operative society whereas the latter is generally established as a private sector organisation. Similarly, the difference between a Consumer Co-operative Store and Super Bazar is that a Consumer Co-operative Store is usually run on small scale, while the Super Bazar may be a large-scale establishment.

Automatic Vending Machines

Retail sale of articles with the help of coin-operated automatic machines is known as automatic vending. Retailing on a large scale is possible in this way by placing machines at convenient locations like bus terminals, railway stations, airports, shopping centres, etc. This method of retail selling is very popular in western countries. Cigarettes, razor blades, postage stamps, milk, ice-cream, soft drinks, soup, paper-back books, newspapers, etc., are sold in cities through vending machines. Customers are required to insert necessary coins in a slot and press a button whereby the article is released

automatically. The coins are collected from the machine periodically, and articles are put in as needed. Automatic vending facilitates buying of small items round the clock. There is no necessity of salesmen's services. However, the stocking capacity of machine is limited and there are risks of mechanical failures irritating the customers. Moreover, paper currency may not be used and coins of exact value are required to operate the machine. In India, automatic vending has been used for selling postage stamps, flight insurance, milk, etc. In Airport, You will find the automatic vending machine for packed eatable, water etc.

12.6 TRENDS IN WHOLESALING AND RETAILING

Marketing is a dynamic area of Management. As such, with a constantly changing environment of business, various important developments have taken place in almost all the areas of marketing. Some of the important developments have taken place in the field of distribution channels also. These developments not only reflect the trends in respect of major channel participants i.e., wholesalers and retailers but also indicate the future of these intermediaries in the country.

The first major development is the emergence of **Integrated Marketing Systems**. Instead of the conventional distribution system, in which an individual channel member operates independently on the basis of self-interest and without taking interest in what occurs later in the chain. Now the channel participants at different levels have started working in an integrated and coordinated manner. This integration may be either vertical or horizontal. Vertical integration refers to coordination between channel participants at different levels. For example, coordination between manufacturers and wholesalers, between wholesalers and retailers. Such coordination may be organised on a corporate, contractual or administered basis. The objective of such integration is to achieve operating economies and increased market impact. Horizontal integration on the other hand, refers to alignment of two or more firms at the same level of channel participation to jointly exploit a marketing opportunity. This integration may be at the level of manufacturers or wholesalers or even retailers. For example, in India, cement manufacturing companies have formed an 'Associated Cement Company' so as to channelise their produce to the market. Similarly, tyre manufacturers have built up a guild through which the prices, etc., of the tyres were being fixed jointly. This tendency of integrated marketing is likely to grow in the coming years.

Secondly, more number of firms are adopting direct marketing techniques for selling their products. This is particularly so in the case of distribution of consumer durable products. This is being done to ensure great control over the market and to bring economy in the cost of distribution.

Thirdly, in the field of retailing, two important developments are the opening of self service outlets, and the increased use of automatic vending machines. The super bazaars and departmental stores, particularly those selling grocery items have almost become common in big cities and towns. Similarly, the automatic vending machines which of late were used for the distribution of milk have now been used by banks for the purpose of withdrawal of cash. As a result, the role of personal selling has slightly decreased while the role of branding and packaging has tremendously increased.

Check Your Progress C

- 1) How is a retailer different from a wholesaler?
- 2) Differentiate between Departmental Store and Multiple Shop.
- 3) Differentiate between a Consumer Co-operative Store and Super Bazar.
- 4) State whether the following statements are **True** or **False**.
 - i) Retailers always buy goods from manufacturers.
 - ii) Retailers also sell goods to other retailers.
 - iii) Super Markets normally deal with consumer durables.
 - iv) Retail traders who move from place to place are called itinerant retailers.
 - v) Super Bazar is a retail shop organised by a Co-operative Society.
 - vi) Consumer Co-operatives are run on no-profit no-loss basis.

12.7 LET US SUM UP

Intermediaries play a significant role in the distribution of goods and services. They create a number of utilities, bring in economy of effort, make shopping convenient for the buyers and help in regulating demand for the products. There are two broad categories of intermediaries — primary and ancillary. The primary participants are those who undertake the negotiatory functions of selling and transferring of title of goods. The ancillary participants such as financial institutions, public warehouses, etc., on other hand, assist the channel members (primary participants) in performing the distribution task. The primary participants may again be divided into two categories: 1) merchant middlemen (retailers and wholesalers) and 2) merchant agents (brokers, commission agents, del credere agents, auctioneers, etc.).

Wholesalers defined as merchant middlemen who are engaged in buying and reselling of goods to retailers, other merchants, industrial and commercial users, but not consumers. Wholesalers may be classified on the basis of merchandise dealt with, methods of operation, and geographical coverage of their dealings. The functions performed by wholesalers include: assembling,

storage, grading and packaging, transportation, financing retail traders, price-fixation, risk-bearing and making advances to manufacturers. Wholesalers render valuable services to manufacturers as well as retail traders.

A retailer is one whose business consists of primarily selling goods to customers for their own use, not for use in their business. If manufacturers sell goods to consumers, they are not treated as retailers as retailing is not the major activity of a manufacturer. The retailers perform several functions such as estimating demand, procuring goods, arranging transport, holding stocks, grading and packaging, and selling. They render valuable service to consumers, wholesalers and indirectly also to the producers of goods.

Retailers may be divided into two broad categories: itinerant retailers and fixed-shop retailers. Itinerant retailers (hawkers, pedlars, pavement traders, and market traders) either move from house to house or change their place of business according to convenience. Fixed-shop retailers locate their stores at fixed places where customers can easily come and make their purchases. Fixed shop retail trading may consist of two types: 1) Small-scale retailing (stall-holders, general merchandise shops, speciality shops, and second-hand goods sellers) who deal in a limited range of products or 2) Large-scale retail stores (departmental stores, super markets, multiple shops, mail-order houses, consumer co-operative stores, super-bazars, hire-purchase trading, discount-houses, and automatic vending) which deal in and stock a wide range of products.

12.8 KEY WORDS

Ancillary Participants: Group of individuals and organisations which do not perform the negotiatory functions of selling and transferring title of products but assist the primary participants in performing the distribution tasks.

Auctioneer: A middlemen appointed as an agent to sell goods by auction.

Automatic Vending: Sale of small articles of regular use by installing coin-operated automatic machines at different places.

Broker : A middlemen who brings together the buyer and seller, and negotiates the terms and conditions of sale on behalf of either buyer or seller.

Commission Agent: A middlemen who sells goods on commission basis on behalf of the owner.

Consumer Co-operative Stores: Retail stores run by co-operative societies organised in the interest of consumer groups.

Del Credere Agent: An agent middleman authorised to sell goods on credit and who assumes the risk of bad debts,

Departmental Stores: Large retail stores consisting of separate departments selling different types of products.

Discount Houses: Retail stores engaged in selling durable consumer goods at a discount.

Factor: A mercantile agent who keeps the goods of other for sale. He can in his own name, pledge and do all acts necessary for sale.

Hire Purchase Trading: Supply of durable goods on hire against the payment of periodical instalments with ownership transferred to the buyer, after all instalments have been paid.

Itinerant Retailers: Retail traders who sell goods moving from house to house or change their place of business frequently.

Mail-Order House: Receiving orders by mail and delivering goods through Post office or courier.

Mercantile Agent: A functional Middleman who undertakes specific functions of sale or purchase of goods as agent of the owner without having ownership right.

Merchant Middleman: A middleman such as wholesaler or retailer who buys and sells goods in his own name and performs necessary functions in that connection.

Middleman: An intermediary between the producer and the consumer to help distribution of goods.

Multiple Shops/Chain Stores: Retail stores under the ownership and management of a single firm dealing in similar products at uniform prices and located at different places.

Primary Participants: Group of individuals and organisations undertaking to perform the negotiatory functions of selling and transferring title of the products.

Retailer: One who is engaged in retail trading.

Retailing: Purchasing goods from wholesalers or manufacturers and selling them the consumers for their personal non-business use.

Speciality Shops: Small retail shops dealing in one or two special types of goods.

Super Markets: Retail stores selling consumer goods of regular use and operating on self-service basis.

Wholesaler: One who is engaged in wholesale trading.

Wholesaling: Purchasing and reselling of goods to retailers and merchants.

12.9 ANSWERS TO CHECK YOUR PROGRESS

- | | | | | | | |
|---|---|----------|-----------|------------|----------|----------|
| A | 4 | i) False | ii) False | iii) True | iv) True | v) False |
| | | i) True | | | | |
| B | 3 | i) True | ii) True | iii) False | iv) True | v) False |
| C | 4 | i) False | ii) False | iii) False | iv) True | v) True |
| | | | | | vi) True | |

12.10 TERMINAL QUESTIONS

- 1) What role do intermediaries play in the distribution of products? Can intermediaries be eliminated?
- 2) What do you understand by retailing? What important functions do the retailers perform in the distribution of products.
- 3) What do you understand by wholesaling? How does it differ from retailing ?
- 4) Compare the advantages and disadvantages of departmental stores and chain stores.
- 5) Write notes on the following:
 - a) Itinerant Retailers
 - b) Ancillary Participants
 - c) Consumer Co-operative Store
 - d) Merchant Agents
 - e) Franchise Stores
- 6) Describe the services rendered by wholesalers and retailers to different sections of society.
- 7) Explain briefly about various types of middlemen.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

UNIT 13 PHYSICAL DISTRIBUTION

Structure

- 13.0 Objectives
- 13.1 Introduction
- 13.2 Meaning and Importance
- 13.3 Total System Approach
- 13.4 Total Cost Approach
- 13.5 Objectives of Physical Distribution
- 13.6 Physical Distribution Tasks
 - 13.6.1 Order Processing
 - 13.6.2 Warehousing
 - 13.6.3 Inventory Control
 - 13.6.4 Transportation
 - 13.6.5 Information Monitoring
- 13.7 Let Us Sum Up
- 13.8 Key Words
- 13.9 Answers to Check Your Progress
- 13.10 Terminal Questions

13.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the concept and role of physical distribution;
- describe the total systems approach and total cost approach to physical distribution;
- discuss the major objectives of physical distribution; and
- describe the major elements of physical distribution system.

13.1 INTRODUCTION

In the preceding two units, various aspects relating to development of channels of distribution (or a network of merchants and agent business institutions) for the flow of goods and services, from the point of production to the point of use, have been discussed. The entire process of setting up and operating contractual organisation responsible for meeting the firm's distribution objectives have been explained. However, nothing actually happens in marketing unless the goods are physically moved from the point of their origin to the point of their consumption. The present unit focuses on

various aspects relating to the physical distribution of a product. It describes the role, objectives and the tasks involved in the process of physical distribution of products and services.

13.2 MEANING AND IMPORTANCE

No matter how good the product of a firm may be, if it does not reach the users or consumers at the right time and place and in the best physical state, a great deal of effort would go waste. For that, it is important to ensure mobility of goods.

From the point of view of management, physical distribution has been described by Philip Kotler as *“planning, implementing and controlling the process of physical flow of materials and final products, from point of origin to point of use, to meet customer’s needs at a profit”*.

In the opinion of W.Y. Stewart *“physical distribution is the science of business logistics whereby the proper amount of the right kind of product is made available at the place where demand exists, viewed in this light, physical distribution is the key link between manufacturing and utility creation.”* As stated by Cundiff and Still, *“physical distribution involves the actual movement and storage of goods after they are produced and before they are consumed”*.

Note that while Stewart's definition emphasises the important contributions of physical distribution, the definition by Cuondiff and Still rather limits the scope of physical distribution to finished goods only. The physical distribution of raw material or semi-finished products is almost ignored in the description.

Thus, in the context of marketing, physical distribution may be defined as the activities involved in the flow of products as they move physically from producer to consumer or industrial user.

The process of physical distribution involves handling and movement of products from the point of production to the point of consumption or use. **The important activities involved in this process include: order handling, information processing, inventory control, storage and transportation.** Thus, the major elements of physical distribution may be listed as follows:

- Transportation
- Inventory Maintenance
- Order Processing
- Acquisition
- Protective Packaging
- Warehousing
- Materials Handling

- Information Maintenance

Look at Figure 13.1 carefully for physical distribution logistics system.

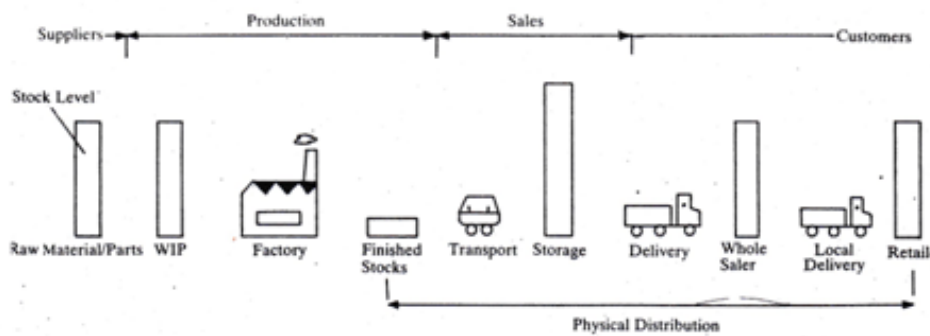


Figure 13.1 Physical Distribution Logistics System

Figure 13.1 : Physical Distribution Logistics System

(**Source:** Phos van Ansel M.J. Physical Distribution Cost Control, International Journal of Physical Distribution and Materials Management)

An effective physical distribution system contributes immensely to the achievement of marketing objectives of a firm. It creates time and place utilities in the products and thereby helps in maximising the value satisfaction to consumers. By ensuring quick deliveries in minimum time and cost, it relieves the customers of holding excess inventories. It also brings down the cost of carrying inventory, material handling, transportation and other related activities of distribution. **In a nutshell, an efficient system of physical distribution has a great potential for improving customer service and reducing costs.**

The area of physical distribution has received considerable attention in the recent years. It is because of the traditional short supply nature of market in our country, which often witnessed gaps between the demand and the availability of the products. Prices of essential commodities of daily consumption are particularly amenable to any dislocation in the physical distribution. This is evident from the concerns and anxieties with news of strike in rail and road transport. The port strike in 1989 is further indicative of the importance that physical distribution has gained over the years.

13.3 TOTAL SYSTEM APPROACH

As stated earlier, physical distribution involves the physical flow of goods. From this we can imply that **the physical distribution management is the development and operation of efficient flow of systems for products.**

The most commonly stated objectives of the physical distribution management in a firm are to minimise the cost of distribution and maximise the services provided to the customers. But actually it is not possible to

simultaneously maximise customer service and minimise the distribution cost. Maximum customer service implies large inventories, faster transportation and best possible warehousing services. All of this would add to the cost of distribution. On the other hand, minimising the cost of distribution would mean using cheaper and slower transport, fewer warehouse and keeping lower level of inventories. This would of course bring down the cost of distribution but at the same time bring down the level of customer service also. Thus, the firms have to strike a balance between these two aspects, To do that, they first set the level upto which they would extend service to the customers. This in turn determines the cost of physical distribution. Let us also have a look at the components of distribution task.

The task of distribution in any marketing organisation consists of the following major elements:

- 1) Transportation
- 2) Warehousing
- 3) Inventory carrying and handling
- 4) Interest on capital employed

The traditional approach of management treats all these components as independent of each other. In other words, the decision regarding say, transportation can be taken independently of the decision regarding inventory or storage. Thus, according to this approach, the cost of distribution can be minimised by keeping the cost of each of these elements at a minimum level.

However, a closer examination of the situation reveals that the costs of each of these elements described above cannot be minimised without affecting the other elements as these activities often have conflicting and even diametrically opposite goals. For example, use of rail transport over air transport would reduce the total cost of transportation of the goods. But, as rail transport is relatively slow, the cost incurred on other elements such as inventory carrying cost, interest on capital employed, etc., would increase. This, in turn affects the level of customer service. Thus, **it may be stated that different physical distribution activities are interrelated. A decision in respect of one activity cannot be taken in isolation of the other activities. So decisions with regard to physical distribution activities should be based on a total systems approach.**

The systems approach is a scientific way of management. It looks at the physical distribution in its total form as a system consisting of several interconnected tasks or parts operating together to achieve the given objectives. Thus, the systems approach of physical distribution, envisages integration of all the components of physical distribution as parts of a whole whose market impact is maximum when they operate in synergy. In other words, it is looking at managing the distribution activities as an integrated

exercise in which decisions in respect of different components are taken not in isolation of one another but as a whole.

Check Your Progress A

- 1) What is the systems approach to physical distribution?
- 2) What is physical distribution in the context of marketing ?
- 3) List out the major subsystems of the total system of physical distribution of a firm.

13.4 TOTAL COST APPROACH

The growing costs of physical distribution have forced marketers to study the structure of physical distribution costs within the company and control them to increase the cost effectiveness. Added to the growing costs is the service function to be performed by distribution logistics. As you know, physical distribution seeks to minimise total costs of distribution at a given level of customer service. In a competitive market where substitutes are available to customers, a major advantage can be gained if distribution costs are reduced while maintaining the required service levels.

The total cost of distribution consists of the costs of various elements such as costs of storage, inventory maintenance, transportation, etc. The total cost approach is a corollary of the systems approach. Total cost approach envisages the use of total cost (and not the cost of each individual component) while choosing the alternative course of action in respect of physical distribution of the products. In case total cost is not analysed, there is every likelihood of taking a wrong decision. This is explained with the help of an illustration presented in Table 13.1.

Table 13.1: Physical Distribution Costs under Alternative Approaches

Physical Distribution Costs	Alternative A	Alternative B
Interest on working capital employed in inventory	100	150 (15 days)
Transportation cost	230	200
Warehousing cost	100	130
Total Cost	430	480

As shown in Table 13.1, if the decision regarding choice of the mode of transportation is taken independent of the other components of cost, rail transport (Alternative B) would be selected, as the cost in this case is Rs. 200,

as compared to the road transport (Alternative A) where it is Rs. 230. But if we prefer rail transport, the cost of other components (interest cost and warehousing cost) increases. We can see from the table that the total cost in case of Alternative A is lower than that of Alternative B. Thus, if the total cost is taken into consideration, Alternative A will be selected as it is less expensive.

From this illustration it is clear that a reduction in the cost of one component may be possible at the expense of the other element. If the transportation cost is reduced, the cost of warehousing and inventory goes up. Therefore, in any attempt to improve the physical distribution efficiency and reduce cost, the total cost of performing the physical distribution function should be taken into account. Management should think in terms of trade off in reducing alternative costs so as to maximise profits. By doing this, the firm can maximise potential profit.

13.5 OBJECTIVES OF PHYSICAL DISTRIBUTION

Determining the objectives is the first step in managing an activity in a planned and systematic way. It is so because the objectives serve as a guiding force for chalking out the strategy for the successful completion of the task. In the area of physical distribution too, the strategy will depend upon the objectives sought to be achieved in this regard. Thus, it is important for the firm to specify the major objectives of the physical distribution system.

The objective of any physical distribution system is to move the goods to the right place at the right time, and at the lowest cost. Thus, customer service and cost reduction are the two basic objectives of an effective distribution system in an organisation. However, there may be some more specific objectives in a given marketing situation. Some such objectives are described in detail below:

Improving Customer Service : As you know, the marketing concept assumes that the sure way to maximise profits in the long run is through maximising the customer satisfaction. Thus, an important objective of all marketing efforts, including the physical distribution activities, is to improve the customer service. This in turn, produces better sales and profits.

An efficient management of physical distribution helps to improve the level of customer service by developing an effective system of warehousing, quick and economic transportation and optimum level of inventory. But as discussed earlier, the level of service directly affects the cost of physical distribution. Therefore, while deciding the level of service, a careful analysis of the customers' wants and the policies of the competitors is necessary. The customers may be interested in several things like timely delivery, careful handling of merchandise, reliability of

inventory, economy in operations and so on. But the relative importance of these factors in the minds of customers may vary. Thus, an effort should be made to know whether they value timely delivery or economy in transportation, and so on. Once the relative weights are known, an analysis of what the competitors are offering in this regard should be made. This together with an estimate about the cost of providing a particular level of customer service would help in deciding the level of customer service.

Reduce Distribution Costs : Another most commonly stated objective is to reduce the cost of physical distribution of the products. It has already been explained that the cost of physical distribution consists of various elements such as transportation, warehousing and inventory maintenance, and a reduction in the cost of one of the elements may result in an increase in the cost of the other elements. Thus, the objective of the firm, should be to reduce the total cost of distribution and not just the cost incurred on any one element. For this purpose, the total cost of alternative distribution systems should be analysed and the one which has the minimum total distribution cost should be selected.

The cost of distribution is also related to the level of customer service offered by a firm. The higher the level of service offered, the greater would be the cost of distribution. Thus, the objective of the firm may be to minimise the total distribution cost to achieve a target level of customer service. In other words, cost minimisation is related to the level of customer service set by the company.

Generating Additional Sale : Another important objective of the physical distribution system in a firm is to generate additional sales. A firm can attract additional customers by offering better services at lower prices through improvements in the physical distribution of the products. For example, by decentralising its warehousing operations or by using economic and efficient modes of transportation, a firm can achieve larger market share. Also by arresting the out-of-stock situation, the loss of loyal customers can be arrested.

Creating Time and Place Utilities: The physical distribution system also aims at creating time and place utilities in the products. Unless the products are physically moved from the place of their origin to the place where they are required for consumption, they do not serve any purpose to the users. Similarly, the products have to be made available at the time they are needed for consumption. Both these purposes can be achieved through the physical distribution system. For example, in order to create maximum time and place values, the products should be kept in warehouse during the period they are available in excess till they are in short supply. For this the warehouse should be located at places from where they can be delivered and sufficient stocks levels should be

maintained so as to meet the emergency demands of the customers quickly.

A quicker mode of transport should be selected to move the products from one place to the other in a short time. Thus, time and place utilities can be created in the products through an efficient system of physical distribution.

Price Stabilisation: Physical distribution may also aim at achieving stabilisation in the prices of the products. It can be achieved by regulating the flow of the products to the market through a judicious use of available transport facilities and compatible warehouse operations. For example, in the case of Industries such as cotton textile industry using agricultural products as raw material, there will be fluctuations in the supply of raw materials. In such cases if the market forces are allowed to operate freely, the raw material would be very cheap during harvesting season and very dear during off season. This fluctuation may be stabilised by keeping such raw material in warehouses during the period of excess supply (harvest season) available during the periods of short supply. Thus, prices can be stabilised with the help of physical distribution activities.

Check Your Progress B

- 1) What is total cost approach in physical distribution system?
- 2) What are the main objectives of physical distribution in a firm?
- 3) State whether the following statements are **True** or **False**.
 - i) In total cost approach of physical distribution system, the cost of each element is considered in isolation.
 - ii) Total cost approach envisages the use of total cost while choosing the alternative courses of action in respect of physical distribution.
 - iii) Efficient customer service is the only objective of physical distribution system.
 - iv) Effective physical distribution system can bring stability in price
 - v) Physical distribution system creates time and place utilities in products.

13.6 PHYSICAL DISTRIBUTION TASKS

The important decisions in respect of physical distribution are: i) how should be order handled? ii) where should the stock be located? iii) how much should stock be kept on hand? and iv) how should goods be transported? In fact, as shown in Figure 13.2, these aspects constitute the major components of the physical distribution system.

Let us discuss about the components in detail.

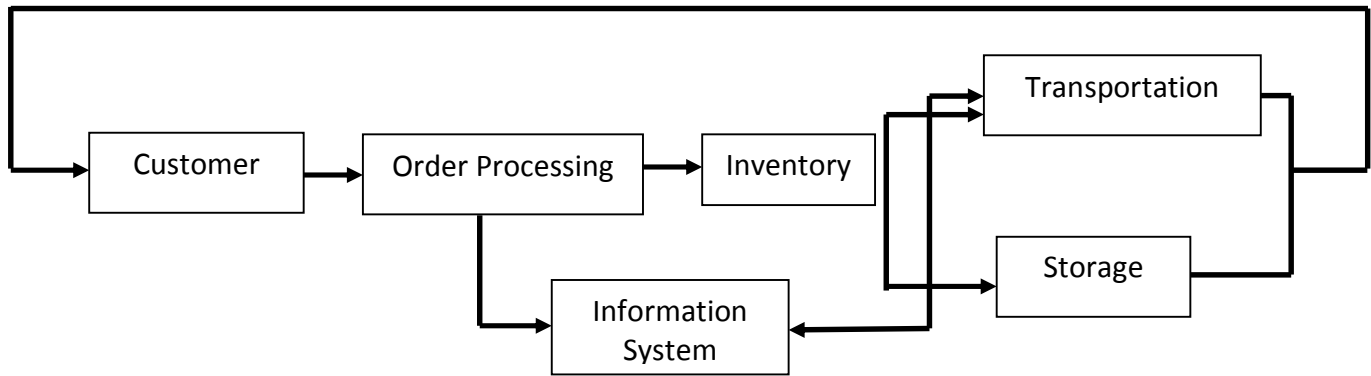


Figure 13.2 Major Tasks of Physical Distribution System

(Source: Mandell M. I and Rosenberg L.J. Marketing, 2nd Ed., Pg. 424)

13.6.1 Order Processing

The starting point of the physical distribution activities is the processing of customers orders. In order to provide quicker customer service, the orders received from customers should be processed within the least possible time. Order processing includes: receiving the order, recording the order, filling the order, and assembling all such orders for transportation. The company and the customers benefit when these steps are carried out quickly and accurately. The error committed at this stage at times can prove to be very costly. For example, if a wrong product or the same product with different specifications is supplied to the customer, it may lead to cancellation of the original order (apart from loss in the credibility of the firm). Similarly, if the order is not executed within a reasonable time, it may lead to serious consequences. High speed orders, data processing techniques are now available which allow for rapid processing of the orders.

13.6.2 Warehousing

Warehousing refers to the act of storing and assorting products in order to create time utility in them. The basic purpose of the warehousing activity is to arrange placement of goods, provide storage facility to store them, consolidate them with other similar products, divide them into smaller quantities and build up assortment of products. Some of the important decision areas in respect of warehousing are:

- how many warehouses should the firm have?
- where should these warehouses be located?
- what should be the pattern of ownership of the warehouse (owned or rented) ?

Generally larger the number of warehouses a firm has, the lesser would be the time taken in serving customers at different locations, but greater would

be the cost of warehousing. Thus, the firm has to strike a balance between the cost of warehousing and the customer service.

For products requiring long-term storage (such as agricultural products or products in limited demand), the warehouses are located near production sites. This helps in minimising the charges on transportation of the goods. On the other hand, the products which gain weight during production and are bulky, hard for shipment (machinery, automobiles), and perishable in nature (bakery, meat, vegetables, etc.) are kept at different locations near the markets. However, the factors which influence the location of warehouses may be listed as below:

- Product type
- Transportation cost
- Proximity to markets
- Rent
- Labour Supply
- Taxes
- Geography
- Competition,

Look at Figure 13.3 carefully for a schematic representation of the problem of the location of warehouses.

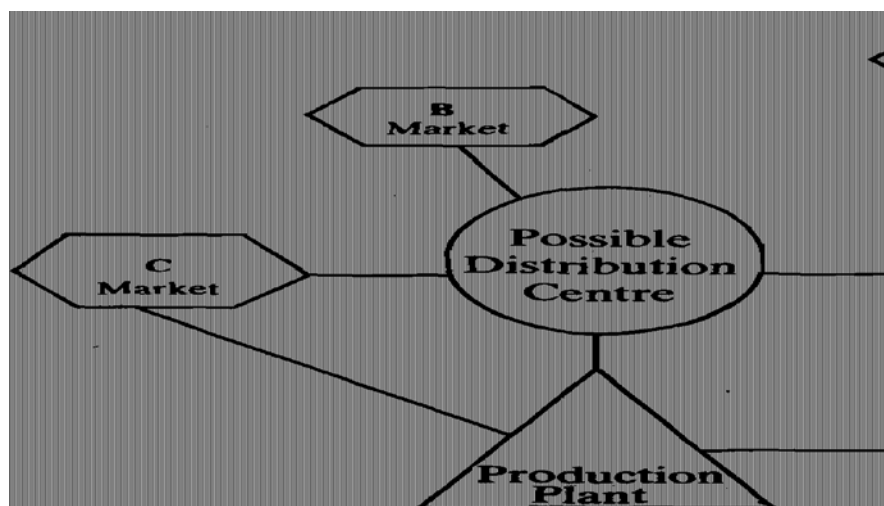


Figure 13.3 : Representation of the Warehouse Location Problem

As regards to ownership of the warehouses, the important factors determining the choice are the amount of money the firm wants to spend on storage and the extent of control it wishes to retain over its goods. The Warehouses may be Public warehouses and Private warehouses. The Private warehouses may be owned or Leased. Public warehouse is generally cheaper but the user has little say about warehouse operations. Own warehousing is better for those firms

which have financial resources and use full capacity throughout the year. To avoid capital investment on construction, the firm can lease in some warehouse depending on its requirement. Some of the other criteria used for deciding between public and private warehouses is given in Table 13.2.

Table 13.2. Decision Variables in Choosing among Types of Warehouse

Decision Variables		Type of Warehousing Arrangements		
		Private		Public
		Owned	Leased	
1)	Fixed Investment	Very High	Moderate, depends on the lease's terms	No fixed investment is involved
2)	Unit cost	High, if volume is low	High, if volume is low	Low, since rates are on the basis of space used and fixed costs are widely distributed among users.
3)	Control	High	High	Low managerial control
4)	Adequacy to product line	Highly adequate	Moderately Adequate	May not be convenient
5)	Flexibility	Low	Low	High; termination of usage can be easily arranged

Depending upon the nature of the products stored and the services rendered, warehouses may be classified as follows:

- **General merchandise warehouse:** It handles a wide variety of goods.
- **Speciality warehouse:** It handles a limited line of goods (e.g., hardware) or it specialises in commodities difficult to store (e.g., grain, cotton).
- **Refrigerated warehouse:** It handles perishable products like milk, fruits, vegetable etc., which require cold storage.

- **Bonded warehouse:** It is insured against loss as well as regulated by certain laws in the case of liquor.
- **Bulk storage warehouse:** It handles liquids such as gasoline, petroleum, oil extracts etc., among other products.

13.6.3 Inventory Control

Linked to warehousing decisions are the inventory decisions which hold key to success of physical distribution especially where the inventory costs may go as high as 30-40 per cent (e.g. Steel and Automobiles). No wonder, therefore, that the new concept of Just-in-Time-Inventory decision is increasingly becoming popular with a number of companies.

The decision regarding level of inventory involves estimation of demand for the product. A correct estimate of the demand helps to hold proper inventory level and control the inventory costs. This not only helps the firm in terms of the cost of inventory and supply to customers in time but also to maintain production at a consistent level. The major factors determining the inventory levels are:

- The firm's policy regarding the customer service level.
- Degree of accuracy of the sales forecasts.
- Responsiveness of the distribution system i.e., ability of the system to transmit inventory needs back in the factory and get the products in the market.
- The cost of inventory which consists of holding cost (such as cost of warehousing, tied up capital and obsolescence) and replenishment cost (including the manufacturing cost).

13.6.4 Transportation

Transportation facilitates to move goods from points of production and sale to consumption in the quantities required at times needed and at a reasonable cost. The transportation system adds time and place utilities to the goods handled and thus, increases their economic value. To achieve these goals, transportation facilities must be adequate, regular, dependable and equitable in the costs and benefits of the facilities and service provided.

Often called carriers, transportation agents are classified by method of movement. These are: roads, railroads, airways, shipways and pipelines.

Road Transportation

Road transport is characterised by the ability to move small shipments economically, to move shipments of varying sizes, short distances, and to deliver shipments to any point in the country that is served by roads and highways.

Road carriers of goods for the market are commonly classified into three

types:

- Common Carriers
- Contract Carriers
- Private Carriers.

Common Carriers: They serve the public at large, moving goods of all types to any part of the country. In practice, however, certain carriers restrict their operations to the handling of one line of goods or closely related lines.

Contract Carriers: These operators enter into rather formal arrangement to transport goods for selected customers which is usually for definite period of time.

Private Carriers: These are operated by business firms and individuals for transportation of their own goods. Often, they are also let out to have a better return.

Truck is the main vehicle used for road transportation of nearly all kinds of goods, particularly manufactured products such as textiles, machinery and rubber and plastic products. Trucks dominate in the movement of household goods and small packages. However, now a variety of LCVs, auto carriers and articulated trucks too are used.

Rail Transportation

The main advantage of railways is their ability to handle heavy bulk products and to interchange cars with other roads without generating additional paperwork for shippers.

Some of the special services provided by railways are:

- Unitised Train
- Piggy-back Service
- Containerisation

Unitised Train: It consists of 100 or more cars carrying commodities like coal on a shuttle basis between mines and a utility company. The use of modern loading and unloading facilities, full time operation of the train and avoidance of switching at yards allow excellent service at substantial cost savings. In recent years, unitised trains have been used for transporting grains, iron ore, and other commodities too and their use continues to grow. Computerised loading and unloading too exists between major power plants and collieries (Korba for instance).

Piggy-back Service: It is also known as 'Trailer-on-floatcar' service. Piggy-back refers to the hauling of loaded truck trailers over railroad lines on specially designed flat cars. Shippers fighting higher transportation costs have shown an increasing interest in this mode of transport because it affords substantial savings in freight handling. Since, it costs less per mile to

transport a trailer on a flat rail car than over the road, lower rates can be charged. Further advantages include less damages while enroute and reduction in delivery time. Piggy-back service is also available on waterways where loaded vans/trailers are moved by steamers/ships between designated points.

Containerisation: It refers to the design and use of filled van or, trailer-size container, which may be moved interchangeably between various types of carriers without breaking bulk. For example, a container may be moved from truck to rail, or from truck to ship, thus reducing the handling charges, damages, losses, and pilferage as well as speeding up the movement of shipments.

Air Transportation

In recent years, significant growth has taken place in the transportation of freight by air, although total air-freight volume is still small as compared to movement by railroads and roadways. The primary advantage of air shipment of course, is the speed with which the traffic moves between air terminals. But, the main disadvantage of air-freight has been its higher costs.

Pipe-line Transportation

Most pipe-lines are used to transport liquid petroleum products. Natural gas, chemicals, coal, minerals, pulp, wood chips and for other non-liquid products also pipelines are extremely economical mode of transport.

The relative importance of transportation types can be measured in 'tons originated' or 'ton miles'.

Tons originated means 'total amount loaded' and includes both inter and intracity movements.

Ton miles means 'one ton moved one km'.

There are several factors that influence the choice of transportation. The following of them merit our attention:

- **Services:** transit privilege, reconsignment, containerisation.
- **Availability.**
- **Flexibility:** Cost, routing, speed, handling.

13.6.5 Information Monitoring

The physical distribution managers continuously need up-to-date information about inventory, transportation and warehousing. For example, in respect of inventory information about present stock position at each location, future commitment and replenishment capabilities are constantly required. Similarly, before choosing a carrier, information about the availability of various modes of transport, their costs, services and suitability for a particular

product, etc., is required. About warehousing, information with respect to space utilisation, work schedules, unit load performance etc., is required.

In order to receive all the information stated above, an efficient management information system would be of immense use in controlling costs, improving services and determining the overall effectiveness of distribution. Of course, it is difficult to correctly assess the cost of physical distribution operations. But if correct information is available it can be analysed systematically and a great deal of saving can be ensured.

Check Your Progress C

- 1) List the major tasks of physical distribution.
- 2) Distinguish between warehousing and inventory control in physical distribution.
- 3) What is information monitoring in physical distribution?

13.7 LET US SUM UP

Physical distribution refers to the activities involved in handling and moving goods from the point of production to the point of use. An effective system of physical distribution greatly helps a firm in achieving its marketing objectives. Apart from creating time and place utilities in the product, it relieves the customers of holding excess inventories and helps in bringing down the cost of carrying inventory, transportation and other related costs.

The cost of physical distribution consists of four important elements, viz., transportation, warehousing, inventory carrying and interest on capital employed. The systems approach to physical distribution envisages integration of all the physical distribution components as parts of a whole system whose market impact is maximum when operated in synergy. The cost approach to physical distribution is a corollary to the systems approach. The cost approach envisages the use of total cost and not the individual cost of each of the components while choosing the alternative course of action in respect of physical distribution of the products.

The broader objective of any physical distribution system is to move the right goods to right place at right time at the lowest cost possible. Some of the specific objectives in a given marketing situation, however, include improving customer service, reducing the distribution costs, generating additional sales, creating time and place utility and stabilising the prices of the products.

The five important components of an effective physical distribution system are: 1) order processing, 2) inventories, 3) warehousing, 4) transportation, and 5) information system. Order processing includes receiving, recording, filling and assembling order for transportation to the customer. The customer and the firm benefits when steps are taken quickly and accurately. Warehousing

is the act of storing and sorting products in order to create time utility in them. The important decision areas in respect of warehousing are determining the i) number of warehouses a firm should have, ii) the location of the warehouses, and iii) whether the firm should own warehouses or use the public warehouses. A decision regarding inventory is based on primarily the prediction about the demand for the product. A correct prediction in this regard helps in minimising the cost of inventory.

As regards transportation, the firm has to constantly evaluate the different alternatives available. Basically the decision has to be between the different modes of transportation like rail, road, water and air. A systematic management information system is necessary to ensure a continuous flow of data on all the components of physical distribution system.

13.8 KEY WORDS

Physical Distribution: Activities involved in handling and moving goods from the point of production to the point of consumption.

Total Cost Approach: Optimization of the overall cost-customer service relationship of the entire physical distribution system.

Total Systems Approach: Looking at and managing physical distribution activity as an integrated exercise where decisions in respect of different components are taken not in isolation of one another but as a whole.

Warehousing: The act of storing and assorting products in order to create time utility in them.

Order Processing: It includes receiving the order, filling the order, and assembling all such orders for transportation.

13.9 ANSWERS TO CHECK YOUR PROGRESS

B 3 i) False ii) True iii) False iv) True v) True

13.10 TERMINAL QUESTIONS

- 1) What is the significance of physical distribution in Marketing Management? Explain its role for a Mumbai based toilet soap manufacturer producing several national brands.
- 2) Customer service and cost reduction are the two bench marks of an effective system of physical distribution. Discuss with examples.
- 3) What would be the most likely mode of transportation for the following products and why?
 - i) Soft drinks
 - ii) Coal

- iii) Refrigerator
 - iv) Industrial Plant and Machinery
 - v) Industrial Chemicals
 - vi) Potato chips
- 4) Explain the total systems approach to physical distribution. How is this different from the Total Cost Approach?
- 5) Explain the strategy options available to a firm in warehousing location? What are their relative strengths and Weaknesses?
- 6) What are alternative transport media available to a firm? What are their relative strengths and weaknesses?

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the university for assessment. These are for your practice only.

SOME USEFUL BOOKS

Indira Gandhi National Open University, School of Management Studies, 1989, *Marketing for Managers MS-6*, Indira Gandhi National Open University: New Delhi (Unit 18).

Kotler, Philip., and Gary Armstrong. 1987. *Marketing - An Introduction*, Prentice Hall: Englewood Cliffs. (Chapters 13 and 14).

Neelamegham, S. 1988. *Marketing in India - Cases and Readings*, Vikas Publishing House: New Delhi, (Chapters 46-50).

Sherlekar, S.A. 1984. *Marketing Management*, Himalaya Publishing: New Delhi.(Chapters 19-21).

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Block

5

PROMOTION

UNIT 14

Promotion Mix

UNIT 15

Personal Selling and Sales Promotion

UNIT 16

Advertising and Publicity

UNIT 14 PROMOTION MIX

Structure

- 14.0 Objectives
- 14.1 Introduction
- 14.2 Meaning and Importance of Promotion
- 14.3 The Communication Process
 - 14.3.1 Elements of Communication Process
 - 14.3.2 Steps in Communication Process
- 14.4 Integrated Marketing Communication
- 14.5 Concept of Promotion Mix
 - 14.5.1 Components of Promotion Mix
 - 14.5.2 Comparison of the Components of Promotion Mix
- 14.6 Factors Affecting the Promotion Mix
- 14.7 Let Us Sum Up
- 14.8 Key Words
- 14.9 Answers to Check Your Progress
- 14.10 Terminal Questions

14.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the importance of promotion in any successful marketing effort;
- describe the communication process and explain various elements in communication process;
- explain the meaning and components of promotion mix; and
- explain the factors that influence the development of the promotion mix.

14.1 INTRODUCTION

Production of a good product is not enough to ensure its success in the market. Unless target customers are aware of the existence of the product, its features, price, etc., they will not buy the product. Thus, it is necessary for the firm to manage a complex communication system. Therefore, some form of promotion is necessary to make consumers, middlemen and public, with which the organization interacts, and make them aware of the existence of the product. Marketers refer to communication with the target audience as **promotion**. Personal selling, advertising, publicity and sales promotion are the promotional methods that may be used to communicate a message. In this

unit, we will discuss the meaning and importance of promotion, communication process, the concept and components of promotion mix and various factors affecting the promotion mix.

14.2 MEANING AND IMPORTANCE OF PROMOTION

In marketing, communication has a very important place. It is the function of marketing which is charged with the task of informing the target customer about the nature and type of the firm's product and services, their unique benefits, uses and features as well as the price and place at which those would be available in the market place. Since marketing communications aim at influencing the consumer behaviour in favour of the firm's offerings, these are persuasive in nature. These persuasive communications are more commonly called 'Promotion' and constitute one of the four Ps of marketing mix. Thus, **in the context of marketing, promotion refers to the applied communication used by marketers to exchange persuasive messages and information between the firm and peoples.**

A study of marketing communication, therefore, is a study of the promotion function of marketing. Notwithstanding the continuing debate whether promotion is the first element of the marketing mix or the last, the fact remains that sound management of the marketing function is dependant on the effective management of its promotion function. For example, in the success of the following products and services the promotion function played a role of greater importance: Hot-shot camera, Maggie 2-minute noodles, Khaitan fans, and UTI's ULIP scheme, to mention only a few. Similarly, the examples of the product which misfired due to faulty management of the promotion function are not far to seek. With growing competition in the market place as well as the customers becoming better informed and more choosy, it is imperative now that marketing communication of the right kind only are made to the right group of target buyers. Let us now understand the importance and purposes of promotion:

- 1) **Communicating information:** As you know, the job of marketing is to **identify** consumer wants and then **satisfy** these wants with the right kind of product, at the right place and at the right price. The purpose of promotion in the marketing function is to **convey** to customers about the features of the product and how will it satisfy consumer wants, or any other relevant information needed by consumers to affect sales.

For example, if a refrigerator manufacturer is planning to offer off-season discount it is essential to communicate to potential customers about the extent of discount, period during which discount is available, names of the stores where it is available, etc. If all such information is not communicated to potential customers, lowering of prices will not be beneficial to either the consumer or the manufacturer. Promotion is, thus,

an essential part of the marketing function as it is essentially communication.

- 2) **Promotion is persuasive communication:** In any free enterprise system where firms develop and offer a wide range of new and better products, there are full of messages and distractions of all sorts. Consumers often have to select the products from among a wide range of competing products. As consumers do not have time and energy to compare the competing products physically, they turn to advertisements for product information.

The present business environment being highly competitive, each firm wants the customers to buy its brand. Thus, **persuasion** is another goal of promotion. In other words, promotion is persuasive communication.

- 3) **Promotion serves as a reminder:** Consider a customer who regularly buys Colgate Toothpaste or Lux Soap. Do marketers of Colgate Toothpaste or Lux Soap advertise to appeal to such customers? The answer is yes, because even the most loyal customers must be **reminded** that a product has served them well over the years and about the features that make the product attractive. This is more so in an environment where competitors consistently attempt to attract the customers of competing brands with their own informative and persuasive messages. Thus, in addition to informing and persuading, another important purpose of promotion is reminding customers. This is why even the manufacturers of well established products like Colgate, Lux, Surf, Excel, Nescafe, Lifebuoy etc., also advertise quite extensively to sustain customers' preference for these products.

Check Your Progress A

- 1) What is the meaning of promotion in the context of marketing?
- 2) What are the three basic purposes of promotion?
- 3) State whether the following statements are **True** or **False**.
 - i) Once a good product is brought into the market, it can sell by itself with promotion.
 - ii) Promotion is an important element of the marketing mix.
 - iii) For loyal customers, who use a product regularly, promotion has no role to play.
 - iv) Persuasion is one of the goal of promotion.
 - v) Well established firm do not need to advertise their products and services.

14.3 THE COMMUNICATION PROCESS

Communication itself may be defined as “**the process of influencing others behavior by sharing ideas, information or feeling with them,**” The basic goal of communication is a common understanding of the meaning of the information being transmitted. In other words, the receiver of the information should understand as closely as possible the meaning intended by the sender of the message. It is largely the responsibility of the sender to ensure that this purpose is achieved.

14.3.1 Elements of Communication Process

Communication has been described as “**who says what to whom through which channels with what effect**”. We notice that the two major parties involved in the process are the sender (who) and the receiver (whom). The tools that senders use to reach their extended receivers are called messages and channels (media). Thus, communication occurs when :1) a sender transmits a message, 2) a receiver received that message, and 3) the sender and the receiver have a shared meaning. **The communication process itself involves the functions of encoding, decoding, response and feedback.** Let us understand each of these elements in communication process:

Sender: It is also called the **source**. Sender is the party who sends the message to another party called the receiver or destination. The sender is engaged in the mental process of putting thought into a form in which it can be communicated.

Receiver : Person for whom the message is intended and is an active part of the communication process. How meaning is assigned to a message by the receiver depends upon on the receiver's attitudes, values, previous experience, needs and the timing of the message.

Encoding: It is the process of translating the idea to be communicated into a symbolic message consisting of words, pictures, numbers, gestures, etc. This step is necessary because there is no way of sending an idea from one person to another in its raw or pure form.

Message: It is a combination of symbols representing objects or experiences that a sender transmits in order to induce a change in the receiver's behaviour. Since most symbols (words, pictures, numbers, etc.) have more than one meaning, the symbols selected for the message should be simple and familiar to receivers.

Medium: It is a means by which the sender conveys the message to the receiver. Broadly there are two types of media: 1) inter personal media, and 2) mass media. In **inter personal medium** there is a direct contact between the sender and receiver. For example, in personal selling salesperson contacts the customers and directly communicates about the product. Here, communication flows in both directions and the salesperson receives

immediate and direct feedback. This enables the salesperson to have greater control over the communication process. **Mass media** are non-personal communication media which provide **contact** between the sender and a large number of receivers simultaneously. Newspapers, magazines, television, radio, hoardings, billboards, etc., are examples of mass media.

Decoding: Just as the sender encodes the message, the receiver must decode it. Decoding is the process by which the receiver attempts to convert symbols conveyed by the sender into a message. Receivers may decode or interpret the message in different ways because of their individual characteristics, experiences and backgrounds. For example, a famous airline had once advertised “if you fly with us you will never walk again”. Although the airline intended to convey to the receiver (i.e., potential passengers) that the airline provides such an excellent services that passengers would always want to fly with this airline, it could be misunderstood by many as a threat or a warning of physical damage to their limbs.

Response: Receiver responds to sender's message by reacting in different ways such as asking questions, buying or not buying the product or seeking more information, etc. Thus, response is a set of reactions a receiver has after being exposed to the message.

Feedback: It is the communication from a receiver to the sender about how he/she understood the message and reacted to it. In this **reverse** flow of communication, receivers encode their messages and send them to the sender. The sender must then decode the feedback message. The longer it takes the sender to receive and decode the feedback, the less valuable it becomes. **Feedback is more direct, more frequent and more immediate when interpersonal communication (sales personnel) channels are used** e.g. salesperson to prospect. Good salespeople receive feedback directly and immediately from their prospects and can modify their sales presentations to suite the prospect's requirements. **It is usually indirect, slow and hard to obtain when the communication is through mass media.** In fact, it can be obtained only if the sender has made some arrangement to receive. Sender may have to carry out marketing research to determine whether the receivers have received the message, how many times, whether they can recall the message, or not, etc.

Noise: Anything that interferes with the communication process so that the receiver gets a message which is different from the one the sender sent or gets no message at all is **noise**. Noise can affect any or all elements of the communication process. For example, if there are too many advertisements of the same product (different brands) in a single newspaper or magazine, it can create distraction. Our earlier example of the airline slogan is a case of noise.

Look at Figure 14.1 carefully for a diagrammatic presentation of the communication process.

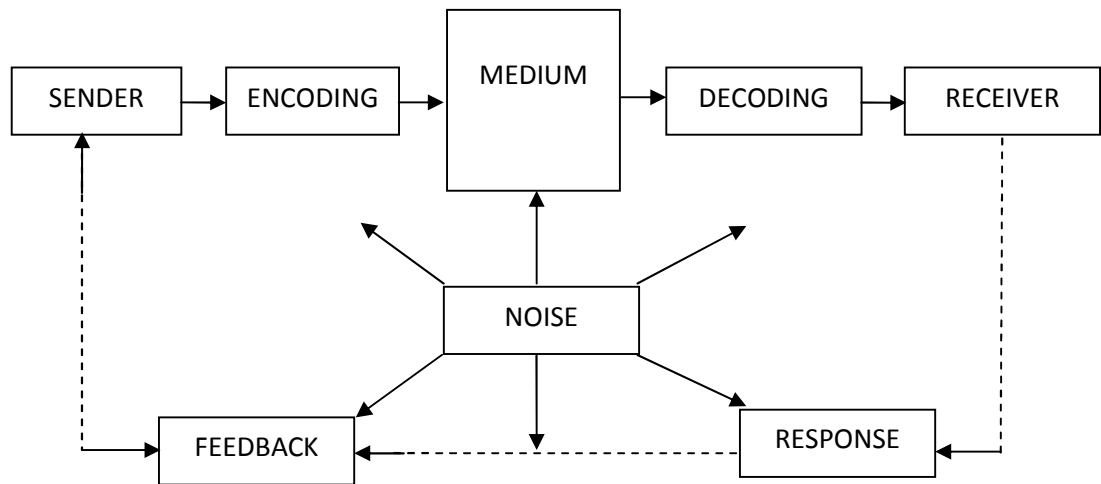


Figure 14.1 : Communication Process

14.3.2 Steps in Communication Process

For communication to be effective, some factors become very important. These are: 1) identifying the target audience, 2) determining the response sought, 3) choosing the message, 4) selecting communication channels and 5) collecting feedback.

Identifying the Target Audience

The term target audience refers to people for whom the promotional message is meant, and includes both present and potential customers. Therefore, to reach such people with a meaningful message, the sender must identify the target receivers and their characteristics (like age, sex, income, education, occupation, life style, etc.), attitudes, values, past experience, buying habits and buying decision process. By understanding the profile of target customers, it becomes easier for the sender to match the message to his target audience.

The greater the extent of overlap between a sender's 'field of experience' (background, values, attitudes, experience, education, social status, etc.) and a receiver's 'field of experience', the more effective will be the communication. This concept was explained by Wilbur Schramm. An advertising agency is asked to develop a sales message about 'beedis' to the target market of low income groups. It may develop a message which is too sophisticated for the target audience to understand. This results in noise because the fields of experience of the sender and receiver are very different. However, if the sender has the proper understanding of his target audience, this problem can be avoided or reduced.

Determining the Response Sought

After having identified the target audience, the sender decides on what response he is expecting from the receiver. For example, the sender might want the receiver to search for more information about a product or service,

or he might want the receiver to see the product physically and then buy it. The ultimate response, however is purchase. As you know, the decision-making process of the consumer leading to purchase is itself long and complex. Therefore, the sender must know how to move the target audience from its present state to a state which is closer to the actual purchase of a product or service. For example, the advertisement in Figure 14.2 expects the receiver to take specific action, i.e., invest Rs. 1,000 in small savings.

INVEST Rs. 1000 AND WIN YOUR DREAM HOUSE AND MUCH MORE...

Invest Rs. 1000/- only in any of the following Small Savings Schemes. Substantially increase your deposit and also collect a Free Gift Coupon. This scheme is open to individuals and Hindu Undivided Families (HUF) only.

Free Gift Coupon Scheme No.2 Details of Prize

Bumper Prizes	(A) House in Jaipur (B) Premier NE-118
First Prize	(N) 10 Kinetic Honda Scooters (O) 10 To trip for a couple to South East Asia (Bangkok - Singapore - Pattaya) for 6-7 days including lodging.
Second Prize	20 VCR with remote
Third Prize	100 Luna Super Moped
Fourth Prize	500 VIP Luggage Suitcase 24"
Consolation Prize	8 Summet Mixi to coupons bearing same number in other series as that of Bumper prize.

Hurry! only Limited Coupons available

For each Rs. 1000 deposit, only one coupon.

This Gift Coupon scheme is valid for investments made from 1.1.91 to 31.3.91 in post offices in Rajasthan only.

Gift coupons can be obtained from Treasury officer/Sub Treasury officer/Dist. Savings officers under the concerned District Collector.

For further details: District Collector*, District Savings Officers*, Director, Small Savings, 6/555, Raja Park, Jaipur, Ph: 49456.

* (Deposits Eligible for Income Tax Relief Benefits).

S.S. Parnami
Director, Small Savings, Jaipur-302004

Figure 14.2 : Advertisement Expecting Specific Action from the Receiver

Through the message sender may want to put something in the receiver's mind or change the receiver's attitude or induce the receiver to undertake specific action. There are different models of **consumer response** stages in use. One such model, the 'hierarchy of effects' will be discussed in detail in Unit 16

Choosing the Message

After deciding about the type of response expected from the receiver, the next step is to develop an effective message. The message should be able to gain the receiver's attention (i.e., the pictures or words used in the message should have impact), arouse interest in the proposition (i.e. the message should provide information of interest to the receiver), produce a desire for the product or service (i.e., make the receiver want the product or service), and finally elicit action of some kind such as actual purchase.

The important decision areas relating to message design are: 1) **message content** (what is to be said), 2) **message format** (how is it to be said), 3)

message source (who should say it). Let us discuss these three aspects in detail.

- 1) **Message Content:** It refers to the key or central idea of a promotional message. For example, the central idea or appeal in the slogan for Nike 'Just do it' is 'to be active' by given them good quality athletic shoes, apparel and sports equipment. Similarly, all Philips advertisements carry the slogan 'Innovation and You'. Here the central idea reflects Philips mission to improve peoples lives through meaning five innovation. When an appeal or central idea is used unchanged over a long period of time to lend consistency to the series of promotional messages, it is called a **Theme**. The slogan for Philips mentioned above is a good example of theme. The appeal or theme in most promotional messages relate to product features or claims about the product. This leads us to another interesting concept known as **U.S.P. or 'Unique Selling Proposition'**. In USP, the features or attributes (selling points) of the product are matched with benefits to the consumer in a unique way. For example, in Sensodyne toothpaste the USP is "Rapid Relief Formula". Thus, the promotional message claims that the toothpaste has clinically proven ingredients to relieve sensitivity pain. (this constitutes the selling point of the product) and the benefit of this feature to the user is 'Fast relief to sensitive teeth'. In this world of growing competition, it is through USP that sellers differentiate their products from those of the competitors.

There are three basic types of appeals used by marketers:

- i) **Rational appeals:** Such appeals show that the product will deliver the claimed benefits. These appeals relate to a product's quality, economy (price), value or performance. In fact most consumer durables such as refrigerators, automobiles, air conditioners, washing machines and other major appliances, and industrial products, use these appeals.
- ii) **Emotional appeals:** Such appeals use either negative emotions (such as fear, guilt, shame) or positive emotions (such as love, joy, pride, humour) to stimulate action or purchase. For example, fear appeal is used by Life Insurance Corporation to encourage people to insure themselves. Emotional appeals are used for fabrics, garments, perfumes, cosmetics, etc. Cadbury Chocolates use love appeal in their advertisements. Tourism advertisements use joy and pleasure as appeals. Onida TV uses pride as an appeal. For example advertisement shown in Figure 14.3 is a guilt appeal.

A casual Sunday

or the health of our children.

That's the choice &fore w.

A seemingly harmless joy ride could actually be working against the future of our children. Some startling facts will drive home the truth...

This year, India will be paying over Rs. 10,000 crores, just for its fuel imports. Which is more than 1½ times the amount spent on Health and Family Welfare during the Seventh Plan (1985-90).

Moreover, petroleum imports are costing us dearly in precious foreign exchange. It's time we got our priorities right. Surely, the well-being of our children merits more concern than a week-end drive. Austerity and efficient utilisation of fuel is the need of the hour.

Here's some fuel for thought...

For a start, let's keep all vehicles off the road, once every week. Even this small sacrifice will enable the country to make a fuel saving of several crores a year.

Let's drive only if it's a must. Where distances are short, let's walk. There's no better way of conserving fuel. We can also shed a few "pounds" without paying a rupee!

Even while driving, we can get more miles to the litre. That's if we keep our vehicle ship-shape. And drive methodically.


Sharing taxis. Starting car pools. Travelling by bus and train... simple

and practical ways of cutting down fuel consumption.

The fuel-saving habit can in fact begin right at home. Switch the cooking gas on, only after lighting the match. Also keep the flame low.

If you run a business that uses petroleum products — introduce energy-efficient technology; equipment, operations, maintenance and periodic energy audits.

Our country needs our small sacrifices to surmount the fuel crisis. But let's not wait to be asked. Now's the time to work jointly in the nation's interest. For its economic independence and self reliance. It's in our own interest too!

 **Indian Oil Corporation Limited**

Sara 10C-21890

Figure 14.3: An Advertisement with Guilt Appeal.

Message Format: The sender must decide how to send the message to the target audience. He must develop a good **format** for the message. For example, if the message has to be printed in newspapers or magazines, the sender has to decide on the type and length of headline, the illustration (or photograph), the copy (the written part of the advertisement, other than the headline) colour etc. Marketers often use suggestive visuals (illustrations), benefits, demonstrations, emotions and music to attract attention. If the message has to be transmitted over radio, the words should be carefully chosen and voice quality (speech rate and pitch etc.) should be controlled. In the case of television, in addition to factors considered for radio, you have to pay attention to facial expressions, gestures, dress, posture, etc. If the message is carried by the product itself or the packaging, the sender has to

pay attention to colour, size, shape, texture and scent, e.g., toilet soaps and perfumes.

2) **Message Source:** The factor how the target audience perceives the sender (or source) can have a great impact on Communication effectiveness. '**Source Credibility**' refers to the target receivers' perception of the sender's belief ability (i.e., how believable be the source or the sender?). Source credibility has an influence on how does target receive evaluate and react to the message. There are three factors which affect source credibility: These are: i) expertise iii) trustworthiness and iii) likeability. Let us learn them.

i) **Expertise:** It refers to the specialised knowledge which the sender is expected to have by virtue of his profession, occupation or experience. For example, doctors, scientists, engineers, professors and other technical experts are rated high or expertise in their respective areas. Similarly, for promoting a health product a prominent sports personality is more believable than a professional model sending the message. For example, Famous cricketers promoting Boost has a great impact due to the association of cricketer's fitness with Boost. To emphasise the efficacy of their drugs, many Ayurvedic firms use endorsements from medical experts.

ii) **Trustworthiness:** It refers to how objective or honest the source (sender) is perceived to be. Friends and relatives are trusted more than strangers or salespeople. In fact trustworthiness is related to expertise. If a well known expert promotes a product, his/her statements will be trusted more. If a company with an excellent track record of producing high quality products launches a new product, its product claims are more likely to be trusted than those of an unknown company making the same product.

iii) **Like ability:** It reflects the source's general attractiveness to the audience (receivers). Qualities such as straight-forwardness, humour, naturalness, good looks (appearance), good voice, etc., make a person more likeable to the audience. The source with the highest credibility would be one which has the best combination of all the three factors mentioned above.

Selecting Communication Channels

Once the promotional message has been designed, the communicator must select efficient communication channels to carry it. There are two broad types of communication channels through which the message may reach to the audience. They are personal communication channels and non personal communication channels.

1) **Personal communication channels:** It involve two or more persons communicating directly with each other face to face, person to audience,

over the telephone, or through e-mail. These channels' effectiveness depends to a great extent on the opportunities of individualizing the presentation and feedback. For example, Redeffusion.com invites on-line customers to sign up for email services and recommendations from experts in their choice of various products available on-line. These channels are of three types: advocate, expert and social communication channels.

- i) **Advocate Channels** consist of company salespeople contacting buyers in the target market.
- ii) **Expert Channels** consist of independent experts making statements to target buyers.
- iii) **Social Channels** consists of neighbours, friends, family members, and associates talking to target buyers. The last channel is also popularly known as word-of mouth influence and may yield considerable influence in many product categories.

Personal influence carries especially great weight in two situations. One is with products that are expensive, risky or purchased infrequently. The other situation is where the product suggests something about user's status or taste. In both cases, consumers will obtain information from others before making a purchase decision. Companies can take several steps to stimulate personal influence channels to work on their behalf:

- Identify influential individuals and companies and devote extra efforts to them.
- Create opinion leaders (people whose opinions are sought by others) by supplying certain people with the product on attractive terms.
- Work through community influentials such as local well known persons and head of the civic organizations.
- Use influential or believable people in testimonial advertising.
- Develop word-of-mouth referral channels to build business.

2) Nonpersonal Communication Channels: Nonpersonal communication channels are media that carry messages without personal contact or feedback. Nonpersonal communication channels include media, atmospheres, and events.

- i) **Media** consist of print media (newspapers, magazines, direct mail), broadcast media (radio, television) electronic media (audiotape, videotape, CD-ROM, DVD, Web page), and display media (billboards, signs, posters). Most nonpersonal messages come from these media which are normally paid by the marketers.
- ii) **Atmospheres** are designed environments that create or reinforce the consumer's leanings towards product purchase. For example, many

restaurants decorate their dinning halls to attract consumers, advocates or law offices are decorated with fine rugs, books and furniture to communicate confidence and success, pharmaceutical companies insist their salespeople to wear specific dress while making visits to the doctors for creating good impressions.

- iii) **Events** are occurrences designed to communicate particular messages to target audiences. Companies through their public relation departments organize press conferences, grand openings, cultural events, arts exhibitions, and other events to communicate with specific audiences.

Although personal communication is often more effective, non personal channels affect personal attitudes and behaviour through a two-step-flow of communication process. Ideas often flow from radio, print, television, and Internet sources to opinion leaders and from these to less media involved population groups. This two-step flow has several implications. First, the influence of non personal channels on public opinion is mediated by opinion leaders, people whose opinions are sought or who carry their opinion to others. Second, the two-step flow shows that people interact primarily within their own social group and acquire ideas from opinion leaders in their group. Third, two-step communication suggests that marketers using non personal channels should direct messages specifically to opinion leaders and let them carry the message to others.

Collecting Feedback

It refers to the receiver's reaction to the message being communicated back to the source. We have already discussed this in great detail while discussing about 'feedback' in this unit.

14.4 INTEGRATED MARKETING COMMUNICATION

As the marketers today use variety of communication channels to reach customers, marketing communication have assumed a new meaning. Companies invest heavily and use number of promotion tools in order to promote their products and services. The main problem which arises here is that these different tools are designed by different people and put forward before customers through different sources. These can result in delivering conflicting, blurred or inconsistent business messages to the target audience. Marketing communication becomes effective and give the desired results only when all the communication or promotion tools are integrated and co-ordinated to give a clear and consistent picture of the company's products and services. Therefore, **Integrated Marketing Communication (IMC)** has been gaining popularity in the 21st century.

In the words of Philip Kotler, **“carefully integrating and co-ordinating the company's many communications channels to deliver a clear, consistent**

and compelling message about the organization and its products is integrated marketing communication”.

The idea behind integrated marketing communication is that the marketers need to carefully combine the promotion elements into a co-ordinated **promotion mix**.

Check Your Progress B

- 1) What are the various stages in the process of communication?
- 2) What is ‘noise’ in a communication process ?
- 3) State whether the following statements are **True** or **False**:
 - i) The basic goal of communication is a common understanding of meaning between the sender and the receiver.
 - ii) The two major tools of communication are response and feedback.
 - iii) The two broad types of channels used in communication are encoding, decoding.
 - iv) Integrating and co-ordinating all the company’s communication channels is called integrated Marketing Communication.
 - v) Emotional appeal relates to product quality.

14.5 CONCEPT OF PROMOTION MIX

In our daily life we all are exposed to various tools of promotion aiming at communicating one thing or the other to us. To illustrate, while at home we come across advertisements when reading a newspaper, watching TV, listening to radio or even examining the water, electricity or telephone bills. On our way to the office similar communications are present on bus panels, roadside hoardings, neon signs, posters and banners, etc. While at a retail shop these take the shape of traffic builders displays, streamers, hangers, bins etc., all sharing information relating to a specific product of a company.

Listed above are just a few types of the various promotion tools available to a marketer. Before proceeding further, let us take a look at the definitions of the four major components of promotion. These are: advertising, personal selling, sales promotion and publicity. There is no way that an individual activity, say advertising, can be managed fully without considering its relationship with the other elements. Therefore, business enterprises normally adopt all the four elements though the relative importance placed on different elements of the promotion mix differ from enterprise to enterprise.

14.5.1 Components of Promotion Mix

As stated earlier, the four elements of promotion mix are: 1) advertising, 2) personal selling, 3) publicity, and 4) sales promotion. Let us learn them in detail.

- 1) **Advertising:** Any paid form of non-personal communication through mass media about a product, a service or an idea by an identified sponsor is called **advertising**. **It consists of paid messages by identified sponsors through non-personal channels (media).** Advertising bears a signature in the form of a company or brand name.

The media used could include: magazines, newspapers, radio, television, bill-boards (hoardings), direct mail, etc. Sponsors may be non-profit organisation (colleges, universities, institutes), companies or individuals. We will discuss about advertising in detail in Unit 16.

- 2) **Personal Selling:** Personal selling is a person-to-person dialogue between buyer and seller, where the purpose of this face-to-face contact is to persuade the buyer to accept a point of view or to convince the buyer to take a specific course of action. In other words, **personal selling is a person-to-person process by which the seller learns about the prospective buyer's wants and seeks to satisfy them by making a sale.**

A salesperson should be properly trained to develop and deliver a message to a prospective buyer. Personal selling often involves a lot of travelling by salespeople and stay outside the normal place of residence. Therefore, personal selling is very expensive. But the high cost of personal selling is offset by flexibility. The salesperson can modify and adapt his presentation to meet the specific needs of the prospect (customer). The salesperson can handle the customer's objections as they arise. In personal selling direct and almost immediate feedback can be obtained from customers. A detailed discussion on personal selling will be taken up in Unit 15.

- 3) **Publicity:** Publicity refers to non-personal stimulation of demand for a product, service or business unit by generating commercially significant news about it in published media or obtaining favourable presentation of it on radio, television or stage. Unlike advertising, this form of promotion is not paid for by the sponsor. Thus, **publicity is news carried in the mass media about an organisation, its products, policies, personnel or actions. It can originate with the media or the marketer, and is published or broadcast at no charge for media space and time, to the organisation.**

Publicity is similar to advertising except that it involves an unpaid and unsigned message, even though it may use the same mass media as advertising. When information about a product or a company is

considered newsworthy, mass media tend to communicate the information at free of cost. Thus, the organisation being publicised neither pays nor signs the message.

Publicity can either be positive (favourable) or negative (unfavourable). Since the message is in the hands of media and not controlled by the organisation (or firm), publicity can be unfavourable. Newspaper (press) reports some years ago about a major fire in a five star deluxe hotel in Delhi. This news gave the hotel a great deal of adverse publicity on account of its faulty fire escape systems. The hotel suffered a tremendous loss of business. On the other hand, when Air India sponsors the Himalayan Car Rally and organises it well, it is likely to receive favourable coverage by mass media since the event is newsworthy.

Marketers spend a lot of time and effort in getting news items and articles placed in newspapers and broadcasts so that a favourable image of the company is created. We will discuss more about publicity in Unit 16.

- 4) **Sales Promotion:** It is the means of communicating with the target audience in a way that is not possible by using other elements of the promotion mix. Sales promotion may be defined as “those promotional activities other than personal selling, advertising and publicity that are intended to stimulate buyer purchases or dealer effectiveness in a specific time period”. Thus, **sales promotion is any activity that offers an incentive for a limited period to obtain a desired response from the target audience or intermediaries (wholesalers and retailers).**

Special offers of gift, coupon deals, discounts, demonstrations, trade shows, contests, etc. are some examples of sales promotion. The purpose of sales promotion programmes is to supplement the advertising and personal selling messages offered by an organisation. The effects occur generally at the point of purchase. We will discuss in more detail about sales promotion in Unit 15.

- 5) **Direct Marketing :** The promotional strategy which relies on direct communication to customers rather than through a third party such as use of mass media is termed as Direct Marketing. It is an interactive mode of marketing where the messages can be altered depending on the consumer's response. This form of promotion strategy is therefore more focussed than the other promotional tools as it is directed to a specific individual customer or group. **Thus, direct marketing is interactive, non-public, immediate and customized.**

Direct marketing comprises both of traditional tools in the form of direct mail marketing, catalogue marketing, telemarketing, time shopping channels and modern digital tools such as online marketing, social media marketing, mobile marketing and many more. The direct marketing campaigns use lists of targeted prospects to send their promotional

messages. We will discuss in detail more about Direct marketing in Unit 20.

14.5.2 Comparison of the Components of Promotion Mix

These promotional efforts are of two general types involving: 1) direct face-to-face communication, and 2) indirect communication through some mass medium, such as television, newspapers, radio, etc. Sometimes a mixture of personal (direct) and non- personal (indirect) promotion is used, as we shall see in the case of sales promotion. The nature of the message and the context in which it is delivered, influence the method to be used. For example, an industrial buyer would not decide to purchase equipment merely on the basis of advertisements or direct mail. Greater emphasis will be given to personal selling. On the other hand, a customer buying soap or toothpaste will have less contact with company salespersons, and will be influenced more by advertisements.

An integration of all the elements of promotion mix is necessary to meet the information requirements of all target customers. This simply means that the promotion mix is not designed to satisfy only the prospective buyer or only the regular buyer. Some elements of the mix may be aimed at the target customer who is unaware of the product, while others may be aimed at potential customers who are fully aware of the product and are likely to purchase it. Suppose you are interested in buying a personal computer. As a result of interest in the product, you started paying attention to computer advertisements in newspapers and magazines. You may even read the media reports on personal computers by experts (publicity). You also may participate in training programmes or demonstrations. You may also contact the salespersons of different computers and find out the features and relative merits. Based on all this information you may then purchase a specific brand.

Now can you answer the question, which aspect of the promotional mix brought you to the decision to buy the brand you finally selected? You may say that the expertise of the salespersons was a major influence, but the fact is that all the elements of the mix played their roles in bringing about the sale. Therefore, to get better response from the target customers, you have to adopt all the four components of the promotion mix. However, you should note that the elements of the promotion mix must be coordinated and integrated so that they reinforce and complement each other to create a blend that helps in achieving the promotional objectives of the organisation.

Table 14.1 Comparison of Various Components of Promotion Mix

S.No.	Factor	Advertising	Personal selling	Sales promotion	Publicity	Direct materials
1	Mode of Communication	Indirect and non personal	Direct and Indirect Face-to-Face	Indirect and non-personal	Indirect and non-personal	Direct
2	Regularity	Regular and on-going	Regular and recurring	Not regular Only short-term stimulation	Not regular Only news-worth information	Regular & recurring
3	Message flexibility	Generally uniform and unvarying Indirect,	Personalised and adopted to the prospect	Generally uniform and unvarying	Beyond the marketer's control	Customized for target prospects but less flexible than personal selling
4	Feedback	Indirect	Direct Feedback from prospect	No feedback from Indirect, if any	No feedback from Indirect, if any	Direct
5	Control over message	High control	High control	High control	No Control	Highest control
6	Sponsor	Has identified	Has identified	Has identified	Has no sponsor	Identified sponsor
7	Cost Per contact	Low to moderate	High	Variable	None	Low to moderate
8	Scope	Mass	Personal	Mass	Mass	Mass
9	Advantages	Allow expressiveness & control over message	Permits flexible presentation and gains immediate response	Gains attention and has immediate effect	Has high degree of credibility	Messages are delivered quickly and can be tailored to appeal to specific customers
10	Disadvantages	Hard to measure results	Costs more than all other forms per contact	Easy for others to imitate	Not as easily controlled as other forms	Low response rates as messages tend to be ignored by customers

Check Your Progress C

- 1) What are the components of the promotion mix?
- 2) Using Table 14.1, compare three characteristics of the various elements of the promotion mix.
- 3) State whether the following statements are **True** or **False**:
 - i) Advertising is a non-paid, non-personal form of mass communication.
 - ii) Publicity is a form of advertising.
 - iii) Sales promotion is used continuously over a long period of time.
 - iv) Personal selling involves a direct face-to-face contact between a buyer and seller.
 - v) In direct marketing messages can be customized to appeal to target prospects.

14.5 FACTORS AFFECTING THE PROMOTION MIX

Many factors influence the choice of elements in a promotion mix and the relative importance of each element. All the factors that influence the promotion mix may be grouped into four categories as follows: 1) product related factors, 2) customer related factors, 3) organisation related factors, and 4) situation related factors. Let us learn them in detail.

Product Related Factors

Product related factors include: 1) the amount and complexity of product information to be communicated, 2) the stage of the product in the product life cycle, and 3) product type and unit price.

- 1) **Amount and Complexity of Product Information:** Usually emphasis is placed on advertising to convey simple ideas or to make consumers aware of a product whose features are easily observed. Advertising is also used for products that are familiar to consumers. The messages which are simple and easily understandable (e.g., Campa Cola and Thums Up advertisements) are generally conveyed through advertisement.

Personal selling and sales promotion are considered more useful to demonstrate complex ideas. For example, in the case of consumer durables such as mixers, television sets, music systems, computers, etc., personal contact enables consumers to try the product and ask questions.

- 2) **Stage of the product in the product Life Cycle (PLC):** During the introduction stage of PLC, the basic promotion objective is to create

awareness and interest in the product. Extensive advertising, sales promotions and publicity, help in reaching potential customers and induce trial purchases. Personal-selling is useful in reaching intermediaries (wholesalers and retailers).

As competition starts building up during the growth stage, focus of promotion shifts on differentiating the product (brand) by showing its advantages over rival brands. Promotion in this stage becomes more persuasive in order to build up and maintain brand loyalty and ensure repeat purchase. Since a larger number of people are trying and using the product, advertising is more economical way of reaching target customers.

As competition intensifies in the maturity stage of the PLC, promotion efforts are at the highest levels at that stage. Promotion messages become more persuasive and advertising gains relative importance over the other elements of the promotion mix. Product modifications are made to discourage entry of new competitor. This may require a new promotion effort. Promotion is generally reduced to a minimum in the decline, stage. Whatever little promotion is carried out at this stage, it is normally done by intermediaries.

- 3) **Product Type and Unit Price:** There seems to be a relationship between the promotion and the type of product and the unit price. There is greater emphasis on advertising for inexpensive, frequently bought consumer products like soaps, toothpastes, potato wafers, razor blades, etc. Whereas more complex products (industrial products like lathes, large generators, etc.) with a higher unit price require greater personal selling effort.

Customer Related Factors

There are two types of customer related factors that affect the promotion mix:

- 1) characteristics of the target market, and 2) type of buying decision.
- 1) **Characteristics of the target market:** Generally, non-personal promotion (advertising and publicity) are more suitable for ultimate consumers, and personal selling is relatively more important for organisational buyers. As the size of the target market increases, non-personal forms of promotion become more relevant. As the size increases, the market becomes more heterogeneous (i.e., it becomes more mixed in terms of sex, age, income, occupation, life styles, etc.). Thus the marketer needs to segment his markets and design different promotional messages to appeal to different market segments. For example, Binnies targeted their advertising to “young people with a modern outlook”, because they identified a large percentage of the potato wafer market was made up of such people, although people of all ages eat potato wafers. Hence the slogan “Humko Binnies Mangta” after the famous Hindi film song, was an instant hit.

- 2) **Type of buying decision:** Buying decisions are of two types: routine decisions and complex decisions. Generally, consumers making routine decisions do not pay much attention for marketing information. If they make routine purchases of a given brand, promotion focuses on reminding customers that the brand is better than the other brands.

When the decisions are complex, as in the case of major consumer durables and appliances such as automobiles, Smart TV's, Laptops, etc., the promotion must contain messages which are fully of relevant information and adapted to the customer's primary needs and wants. The effect of competitor's promotion must also be considered. After the purchase, reassuring the customer that he has bought the right product, through letters and personal visits by salespeople becomes very important.

Organisation Related Factors

These factors may be of two types: 1) marketing channel and promotion strategies, and 2) branding strategies.

- 1) **Marketing Channel and Promotion Strategy:** This relates to the marketer's choice of strategies to build sales. He has to decide between (i) a push strategy and (ii) a pull strategy.

- i) **A Push Strategy** is one in which the producer actively promotes his product to intermediaries, who in turn actively promote it to final buyers. In other words, each channel member (including the producer) directs his promotional effort to the next channel member in the link. Look at Figure 14.4 carefully for a push strategy in promotion.

A push strategy requires a great deal of emphasis on personal selling at the producer's level and various types of sales promotion methods directed to company salespeople and intermediaries.

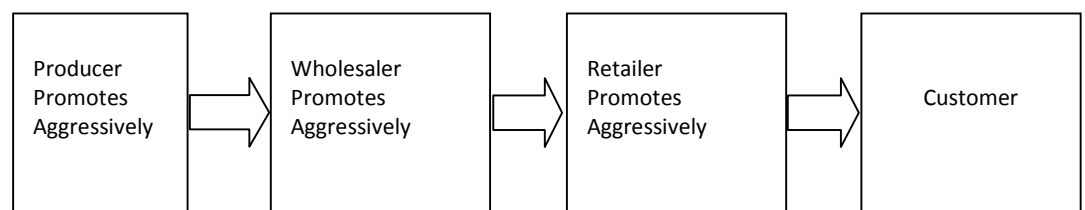


Figure 14.4 :A Push Strategy of Promotion

- ii) In **pull strategy** the producer focuses promotional efforts directly on the final buyer rather than on intermediaries. For instance, in the case of a consumer product, the objective is to induce customers to ask retailers for the product, in turn retailers ask wholesalers and wholesalers ask the producer for the product. Consumers, thus, “pull” the product through the marketing channel.

A pull strategy involves a high degree of advertising and various types of sales promotion directed to final buyers. Examples include coupons and premiums (free gifts). Pull strategy is suitable when the producer wants to create a strong company image. This requires complete knowledge about target markets in order to design and develop the right kind of appeals for such markets. Look at Figure 14.5 and study how pull strategy works.

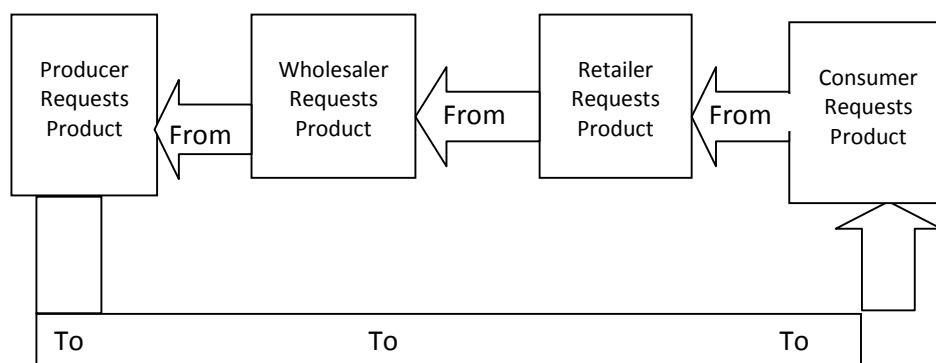


Figure 14.5 :A Pull strategy of promotion

In most situations, marketers use various combinations of push and pull strategies. In the cosmetic industry, for example, sales personnel call on department stores, retailers and super markets to push the product through intermediaries by means of product demonstrations, displays, etc. Producers also spend heavily on advertising and sales promotions (coupons, free samples, etc.) to pull customers through the marketing channels.

- 2) **Branding strategy:** A firm which adopts an individual branding strategy relies heavily on promotion to introduce a new brand. An image has to be created for acceptance by both customers and intermediaries. A combination of personal selling, advertising and sales promotion will be needed to create the image and establish the brand. Family branding on the other hand requires relatively lesser effort to introduce a new brand. Possibly with a little advertising, new brands introduced by Tata's, Godrej or Philips will find ready acceptance, because of the family brand's image. Consumers may try it because of their satisfaction with other products under the family brand name.
- 3) **Budget:** It relates to the funds (money) available with the organisation for promotion. Hence the choice of a promotional element or elements would depend upon the relative costs of reaching the target customers with each promotional tool. Personal selling, for example, is more expensive (per contact) than advertising. Sales promotion can be expensive or inexpensive depending upon the type used. Marketers try to optimise the per rupee contribution of promotion. Therefore, the promotion mix chosen will depend upon the relative cost and efficiency of each element of the promotion mix and the amount available with the company for promotions.

Situation Related Factors

There are two situation related factors which affect the promotion mix: 1) visibility of the firm and its political, legal and social environment, and 2) impact of competition.

- 1) **Visibility of the Firm and Environment Factors:** Some companies are better known to the public because of their products, their relative position in the industry (i.e., large or small) and their impact on physical, economic or social life of people. Examples could include: Hindustan Unilever, Tatas, ITC, Reliance and many others. Such firms generally like to project themselves as being sensitive to the environment. To achieve this objective, these companies sponsor activities in the interest of the general public. For example, Tata's have sponsored Cancer Research, ITC sponsors a music programme each year (Sangeet Sammelan) and MRF has very actively associated itself with sporting events (e.g. , World Boxing Championship).

Since a large number of people are concerned with the actions of such **highly visible firms**, these firms spend more money on public relations and publicity, in addition to the money and effort spent on promoting their products and services.

- 2) **Impact of Competition:** Firms very often have to match or counter the promotional activities of their competitors to maintain or increase their market shares. Hence the promotional effort of such firms is affected and influenced-by the activities of their rivals. In recent times we have seen the advertisement war between competing firms in the soft drink industry (Coca Cola Vs. Pepsi) and the telecom industry (Reliance Jio Vs. Airtel).

Check Your Progress D

- 1) List out the various factors affecting the promotion mix.
- 2) Differentiate between push and pull promotion strategies.
- 3) State whether the following statements are **True** or **False**:
 - i) Promotional efforts are at the highest level in the maturity stage of the product life cycle.
 - ii) Less promotional effort is required for new products introduced under the family brand name.
 - iii) The choice of an element in the promotion mix does not depend upon the amount of money available with the firm for promotion.
 - iv) Firms often try to match or counter the promotional activities of their competitors.
 - v) A pull strategy involves high degree of advertising.

14.6 LET US SUM UP

Promotion may be defined as applied communication used by marketers to exchange persuasive messages and information between the organisation and its various publics. It includes all the activities designed to stimulate demand. Thus, promotional strategy is designed to inform, persuade and remind about the existence and benefits of a product, a service or an idea.

Communication occurs when a sender transmits a message, a receiver receives that message and the sender and the receiver have a shared meaning. The communication process itself consists of the following elements: sender, receiver, encoding, decoding, message, media, response, feedback and noise. Marketers must understand the process of communicating effectively with their target markets and the other publics. Important steps in developing effective communication are: 1) identifying the target audience, 2) determining the response sought, 3) choosing the message in terms of content and format, 4) selecting communication channels and 5) collecting feedback.

The promotion mix consists of a careful blending of the four elements viz., advertising, personal selling, sales promotion and publicity. Advertising is any paid form of non-personal communication through mass media about a product by an identified sponsor. Personal selling is a face-to-face direct interaction between the buyer and the seller, where the seller learns about the buyer's wants and seeks to satisfy them by making a sale. Sales promotion is an activity that offers an incentive for a limited time period to increase sales and enhance dealer effectiveness. Publicity is a non-personal, non-paid form of mass communication not identified by a sponsor. It is news carried in mass media about an organisation or its products at no charge for media space/time.

Factors that influence the use and relative emphasis of various promotional elements are: 1) product-related factors (complexity of the product and information to be communicated, stage in the product-life cycle, and product type and unit price), 2) customer-related factors (characteristics of the target market and the buying decision type), 3) organisation related factors (type of marketing channel, branding and budget decisions), and 4) situation-related factors (firms and their environment, and the impact of competition on the choice of promotional elements).

14.7 KEY WORDS

Appeal: Central idea of a promotional message.

Communication: The process of influencing others' behaviour by sharing ideas, information or feelings with them.

Decoding: The process by which the receiver attempts to convert symbols conveyed by the sender into a message.

Encoding: The process of translating ideas to be communicated into symbolic messages such as words, pictures, numbers, gestures, etc.

Feedback: Refers to the receiver's reaction to the message being communicated back to the source.

Integrated Marketing Communication: Integrating and co-ordinating the company's many communication channels to deliver a clear and consistent message about the company's products and services.

Medium: A communication channel which carries the sender's message to the receiver and vice versa.

Message: A combination of symbols representing objects or experiences that the sender transmits to induce a change in the receiver's behaviour.

Noise: Anything that interferes with the communication process, so that the receiver gets a message which is different from the one the sender sent, or gets no message at all.

Promotion: Applied communication used by marketers to exchange persuasive messages and information between the firm and its various publics.

Promotion Mix: A careful blending of advertising, personal selling, sales promotion and publicity to achieve the organisation's promotional objectives.

Pull Strategy: A promotional strategy in which the producer focuses promotion efforts directly on the final buyer, who in turn asks for the product from the intermediaries.

Push Strategy: A promotional strategy in which the producer actively promotes his product to intermediaries, who in turn promote it to the final buyer.

14.8 ANSWERS TO CHECK YOUR PROGRESS

- | | | | | | |
|----|----------|-----------|------------|----------|----------|
| A3 | i) False | ii) True | iii) False | iv) True | v) False |
| B3 | i) True | ii) False | iii) False | iv) True | v) False |
| C3 | i) False | ii) False | iii) False | iv) True | v) True |
| D3 | i) True | ii) True | iii) False | iv) True | v) True |

14.9 TERMINAL QUESTIONS

- 1) Using a communication model, give examples of the encoding and decoding that might take place during the personal selling process.
- 2) How does a push strategy differ from a pull strategy? Give examples from your experience.

- 3) How do interpersonal communication channels differ from mass communication channels?
- 4) Explain the factors which affect the sender's perceived credibility among receivers in the communication process?
- 5) What do you mean by communication process in the context of marketing? Explain the major steps in communication process.
- 6) What is promotion mix? Explain the elements of promotion mix.
- 7) What factors do you take into account while deciding about the promotion mix for your product? Discuss with examples

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

UNIT 15 PERSONAL SELLING AND SALES PROMOTION

Structure

15.0 Objectives

15.1 Introduction

15.2 What is Personal Selling?

15.3 Importance of Personal Selling

15.4 Selling Theories

15.5 The Personal Selling Process

15.6 Salesperson

15.6.1 Types of Personal Selling

15.6.2 How Salespersons are Different from Others?

15.6.3 Qualities of a Good Salesperson

15.7 Sales Promotion

15.7.1 Importance of Sales Promotion

15.7.2 Major Sales Promotion Tools

15.8 Let Us Sum Up

15.9 Key Words

15.10 Answers to Check Your Progress

15.11 Terminal Questions

15.0 OBJECTIVES

After studying this unit, you should be able to:

- explain the nature and importance of personal selling;
- explain some of the theories of personal selling;
- identify the steps involved in personal selling effort from prospecting customers to closing the sale;
- identify the different types of selling jobs;
- state the qualities of a good salesperson; and
- discuss the importance of sales promotion and identify the major tools used in sales promotion.

15.1 INTRODUCTION

In Unit 14, you have studied that promotion mix consists of four elements viz., personal selling, sales promotion, advertising and publicity. We have studied about these four elements very briefly. In this unit, we will discuss personal selling and sales promotion in greater detail. It explains the nature and importance of personal selling, the theories of personal selling, major steps in personal selling and qualities of a good salesperson. It will also explain the importance and major tools of sales promotion.

15.2 WHAT IS PERSONAL SELLING?

Personal selling has been defined as “person-to-person dialogue between buyer and seller where the purpose of the face-to-face interaction is to persuade the buyer to accept a point of view or to convince the buyer to take a specific course of action”. Personal selling is a promotional activity consisting of **human contact** and **personal** and **oral** communication rather than impersonal mass communication. The salesperson’s job may be to **remind**, to **inform** or to **persuade**. In general, the salesperson's responsibility is to keep existing customers informed about the company's products and services and to persuasively convey a sales message to potential customers. They communicate the company's offer and show prospective buyers how can their problems be solved by the product.

Personal selling is quite expensive. The salesperson must be properly trained in developing and delivering a message suited to the individual customer. Time may also be spent travelling or waiting for the opportunity to deliver the message. On the other hand, personal selling is the most flexible means of delivering a promotional message.

The salesperson can change and adapt his presentation to suit the customer’s needs. Unlike newspapers, TV and radio (the other forms of promotional communication), salesperson can focus on those most likely to buy the product. Another advantage of personal selling is direct feedback from the customer or prospect.

How Personal Selling Differs from Sales Promotion?

There is often a lot of confusion as the two terms are mistaken for each other. To understand the difference, let us first understand the definition of sales promotion. **Sales promotion can be defined as those promotional activities, other than personal selling, advertising and publicity, that are intended to stimulate buyer purchases or in a specific time period.** Sales promotion is, thus, any activity that offers an incentive for a limited period to induce a desired response from target customers or dealers. It may take the form of contests (both for customers or dealers) with attractive prizes for winners, gift coupons, free samples discounts, etc. It should be understood

that sales promotion involves a non-personal one way communication e.g., announcements in newspapers, magazines or at points of purchase (shops).

Now, let us study how personal selling is different from sales promotion. Study Table 15.1 carefully and understand the difference.

Table 15.1: Difference between Personal selling and Sales promotion

	Factor	Personal Selling	Sales Promotion
1	Mode of Communication	Direct and face-to-face (one-to-one contact)	Indirect and non-personal
2	Regularity	Regular and on-going activity (continuous)	High
3	Message flexibility	Personalised and designed to meet specific customer needs	Has no provision for direct feedback
4	Control over the message	Fairly High	High
5	Feedback	The salesperson gets a direct feedback from the customer	Has no provision for direct feedback

Check Your Progress A

- 1) Based on Table 15.1 state the difference between sales promotion and personal selling.
- 1) State whether the following statements are **True** or **False**.
 - i) Personal selling involves only an exchange of money for goods.
 - ii) Success in personal selling depends upon the salesperson's ability to win acceptance and his art of persuasion.
 - iii) Sales promotion is another name for personal selling.
 - iv) Sales promotion has provision for direct feedback.
 - v) Personal selling is expensive.

15.3 IMPORTANCE OF PERSONAL SELLING

Personal selling assumed a great deal of importance in Post second World War period. The reasons were: (1) Technological which in turn led to the expansion of production capacity in industries. (2) Because of the growth of financial institutions, a large number of enterprises came into being. (3) There was an overall development in transport and communication which reversed some of the seller's markets. This resulted in the emergence of

personal selling as a very important factor in the growth and success of the business.

It is almost impossible to think of any organisation making no personal contact with its clients. Thus, personal selling in its various forms, is the most commonly used promotional tool. Even the accountants, stock brokers, dentists, lawyers management consultants and other professionals are also considered as salesperson because they deal with clients and sell services. Personal selling operation generally accounts for a major proportion of marketing costs and presents the management with many complex issues in decision making. These issue may be managing the sales operation, building, retaining and developing motivated sales force. In terms of money spent, personal selling is again the foremost promotional tool. The amount spent on personal selling (15% to 20% of net sales at times) far exceeds the amount spent on advertising (approximately 2% to 5%of net sales). This is evident when we look at the large number of salespeople involved, their training, remuneration, travelling and other selling expenses. Personal selling is also the most significant promotional tool in terms of the number of people. Most personal selling involves a blend of marketing activities performed by many specialists. This simply means that personal selling relates to each part of the marketing mix i.e., product, price, place and promotion. A company's advertising is designed to help salespeople make a sale. Advertising draws inquiries from individuals who might become prospects for sales calls. The kind and amount of selling needed is dependent on the nature of the product. Complex technical products need greater selling effort than consumer goods. Even among consumer goods also, the extent of selling activity varies from product to product. High priced products such as Computers, CTVs, etc. require greater involvement of the prospect and thus a greater selling effort. The channels of distribution used for the product also have an impact on the level of services provided to customers. A salesperson should therefore, understand his company's distribution system very well.

Further, personal selling is important from the company's point of view for the following reasons:

- 1) **Personal selling helps to reduce marketing costs:** Since salespeople work in the field they know where the products are to be made available. This avoids dumping of goods where there is no demand.
- 2) **Personal selling reduces the cost of production:** Personal selling helps to increase sales, which in turn results in higher production. The fixed cost would, therefore, be spread over a large number of units, thereby reducing the cost per unit.
- 3) **Personal selling helps to introduce new products and innovations to the market:** Without salespeople this process would be greatly slowed down, because people neither have the time nor the desire to seek out new developments.

- 4) **Personal selling facilitates consumption:** If goods and services are not bought in sufficient volume, people producing them lose their jobs. Selling helps people overcome their initial hesitation in buying, thereby increasing consumption. Consumption creates employment.

15.4 SELLING THEORIES

There seems to be some disagreement on whether selling is a **science** with basic concepts that are easily taught or an **art** learned through experience. This controversy led to two different approaches to the theory of selling. The first approach is based on the collective experience of salespeople in the field, rather than on a systematic body of knowledge. It includes two theories: 1) the AIDA theory of selling and 2) the right set of circumstances theory. The second approach which is based on research finding from behavioural sciences and psychology also includes two theories: 1) the buying formula theory, and 2) the behavioural equation theory. Thus, on the whole there are four selling theories. Now let us discuss about them one by one.

The AIDA Theory

It states that during a successful sales presentation (interview) by the salesperson to the prospect (would be customer), the prospect's mind goes through four stages viz., Attention, Interest, Desire and Action given by the acronym AIDA. It is important that the salesperson's presentation leads the prospect through these stages.

Attention: The salesperson's first goal is to get the prospect in a receptive frame of mind. A good first impression can be created with a neat dress and a friendly smile. For example, a salesperson selling a skin lotion may gain attention with an opening line such as "this new skin lotion will protect you from dry skin".

Interest: The second task of salesperson is to turn the prospect's attention into a strong interest. To achieve this, the salesperson has to be enthusiastic about the product. Another method is to hand over the product to the prospect and let him handle it. Brochures and other visual aids serve the same purpose. Using the skin lotion example mentioned above, a question to arouse interest could be "are you aware that dry skin is one of the most important things to prevent wrinkles as you grow older?"

Desire: The third task is to convert interest into desire to a ready-to-buy point. Objections from the prospect will have to be carefully handled at this stage.

Again taking the skin lotion example, -the salesperson could make a statement such as "here's a photograph of Shehnaz Hussain (or someone else) who has benefited from our skin lotion" to arouse desire for the product. The prospect would also like to have wrinkle-free face as she/he grows older.

Action: This is the last stage where the prospect should now be ready to act, that is to buy. Very often there may be some hesitation on the part of the prospect at this stage. This could be overcome with a statement “we are offering an introductory discount on this skin lotion” or “this lotion is available at all leading stores in your locality”.

However after the sale has been made, the salesperson should ensure that the customer is satisfied with the product.

The Right Set of Circumstances Theory

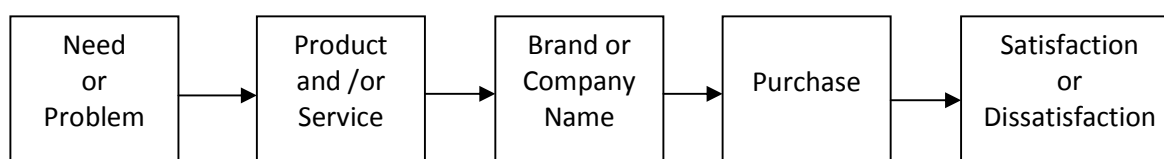
The underlying principle of this theory can be described by the statement, “everything was right for the sale to take place”. This simply means that if a salesperson (after gaining interest and attention of the prospect) presents the right appeals in the right situation, the desired response (i.e., a sale) will result. That is why this theory is sometimes known as the **situation response theory**.

The salesperson should try to control the prospect’s external and internal factors. For example, during the interview if the salesperson says to the prospect ‘let us go for a cup of tea’. If the prospect accepts the invitation salesperson might feel that a sale will eventually result. What we notice here is that the salesperson’s focus is mainly on the external factors, whereas the more important to or not to: i) have a cup of tea, ii) have it now, iii) go out of the office, and iv) go out with the salesperson. **The main problem with this theory is that it is seller-oriented and tends to stress and the seller controls the situation.**

The Buying Formula Theory

According to this theory, the buyer’s needs and problems receive a lot of attention, and the salesperson’s role is seen as helping the buyer to find solutions. Whenever a prospect (or individual) feels a need or recognises a problem, he feels that he is being deprived of satisfaction. In the world of buying and selling, the solution (or satisfaction) will come in the form of a product or service or both.

In a buying situation, the word ‘solution’ consists of two parts: 1) the product itself, and 2) brand name or company’s name. Therefore, in the buying process the buyer moves through five stages shown below:



According to these stages, the guidelines a salesperson should follow are:

- 1) If the prospect does not feel the need, the need should be emphasised.
- 2) If the prospect does not think of the product at the time of need, association between, the need and the product should be emphasized.

- 3) If the prospect does not think of the brand or company name when thinking about the product, the relationship between product and brand or company should be emphasised.
- 4) If the need, product and brand name are well associated, the salesperson should emphasise the ease of purchase and use.
- 5) When selling to new you have to present the complete information and relative details of all the aspects and element mentioned in this theory, to bring the customers to the desired state minor

The Behavioural Equation Theory

According to this theory, the consumer buying behaviour which is the result of his buying decision is actually a learning process for a person in a special situation. This learning process has four important elements – 1) Drives 2) Cues 3) Response, and 4) Reinforcement.

- 1) **Drives:** It is an urgent need and motive. The goal of fulfilling it lies in humannature. The need of hunger thirst, cold, security etc. are urgentor awoke which people are bound to fulfill. They are of two types :
i) **Internal** which are inside humans. For example thirst, hunger, cold, sexual desire etc. ii) **External**, which human learns in years from their experiences. For example, desire for a post, reputation or social respect. Therefore, they are called learned desires.
- 2) **Cues or stimuli :** The cues elements are environment or a specific state, which influences consumers or some person to do a specific task. For example, as soon as you get your hands on a hot pan, you shake your hands. This way heat (often) is an element which influences you to do this. Similarly when you see something, you are motivated to buy it. Thus, buying motivation is inciting that is creating such consumer response is called cue element. This can be of two types – i) Product – motivated (example – product colour, weight, price etc.) and ii) information motivated.(example – advertisement, communication).
- 3) **Response:** We have seen that response is what the buyer does (action).
- 4) **Reinforcement:** Any event (e.g., satisfaction with the product) which strengthens the buyers' tendency to act in a particular way (response) is referred to as reinforcement.

The behavioural equation is given by the formula:

$$B = P \times D \times K \times V$$

where B = Act of purchasing a brand or product

P = Strength of habit of inward response tendency

D = Present level of drive (motivation) for the product

K = Value of the product or potential satisfaction it can give to the buyer

V = Strength of the cue

Each time there is a response (purchase) in which satisfaction (K) yields a good reward, the tendency (P) to repeat the act becomes stronger. **The salesperson can influence the buyer in terms of the different elements of the equation given above.**

Check Your Progress B

- 1) What are the various selling theories?
- 2) Distinguish between the AIDA Theory and Right Set of Circumstances Theory.
- 3) Distinguish between Buying Formula Theory and Behavioural Equation Theory.
- 4) State whether the following statements are **True** or **False**.
 - i) Personal selling is the most expensive promotional tool a company can use.
 - ii) Today's sales representatives are managers of their territories.
 - iii) A good salesperson is one who can sell a product to a customer, whether or not the customer needs it.
 - iv) Salespeople require a very high degree of direct supervision from their superiors.
 - v) Personal selling helps in reducing production costs.

15.5 THE PERSONAL SELLING PROCESS

As you know, the basic objectives of personal selling are: 1) to find prospective customers, 2) to convert these prospective customers into customers, and 3) to keep them (retain them) as satisfied customers. The importance of each objective to an organisation depends upon the role played by personal selling in the overall promotion mix.

The **personal selling process**, also known as **the creative selling process** or **selling dynamics** or **salesmanship**, explains how do salespeople find prospects, convert customers and keep them as customers. This process involves a series of steps as follows: 1) prospecting, 2) pre-approach, 3) approach, 4) sales presentation 5) handling objections, 6) closing the sale, and 7) follow up. Let us study these steps in detail one by one.

Prospecting

The process of searching (locating), identifying and qualifying potential customers is referred to as prospecting. Sales calls by salespersons to regular

customers are only a part of the sales job. In fact new customers also must be sought for the growth of the business. The first step in this direction is to generate leads. **Sales leads are the names of people or organisations that might have some use for the salesperson's product.** The sources of these leads could be trade journals and trade directories, advertising inquiries (such as coupons returned to the organisation in response to an advertisement), business sections of newspapers, trade shows and even present customers. Chambers of Commerce and government publications could also be a useful source. These names (leads) are not prospects yet. They have to be qualified before they can be called prospects. The conditions for qualifying a prospect, the company or individual must have a definite need for the product, should be able to afford it (i.e. the ability to pay for the product), and should be authorised to make the buying decision. Another condition in qualifying prospects is to determine whether the prospect's order will be of sufficient size or not. Only those individuals or companies that meet these requirements are classified as prospects (or prospective customers).

The Pre-approach

It is part of the salesperson's home-work before contact with the prospect. It involves gathering more specific information about the prospect's background, product needs, personal characteristics, etc. The information could cover a wide range of areas. For instance in the case of individuals the information may include: the prospect's age, marital status, hobbies, interests, number of years in business, education, etc. Similarly in the case of companies, information may include: background of the company, types of products, present suppliers, actual demand, the prospect's decision-making authority, people who can influence decisions, etc.

This information about the prospects will help the salesperson in the following ways:

- 1) It will help him to avoid tactical blunders during the sales presentation and approach. For example, during a conversation with the prospect, a salesperson might criticise or express views which might be the exact opposite of the prospect's views. This would surely put an end to the approach and presentation.
- 2) It helps the salesperson in designing the presentation to suit the prospect's situation, using material and aids he thinks the prospect will accept.
- 3) During the pre-approach the salesperson might discover that there are some areas of common interest between the salesperson and the prospect e.g. , they are both very keenly interested in swimming or cricket. This gives the salesperson greater confidence in meeting the prospect and might be a good way to start a conversation. It is often said that **“knowing something about your prospect is as important (if not more), as knowing everything about your product.”**

The Approach

It deals with making initial contact and establishing rapport with the prospect. It is the manner chosen by the salesperson to gain access to the prospect and get the prospect's attention and interest. The quality of the first impression will determine whether the salesperson will be able to develop an ongoing relationship-with the prospect.

The information gathered during pre-approach will be very useful at this stage. For example, during pre-approach the salesperson may have discovered, that the prospect is paying a very high transportation cost on goods sent to his customers or dealers. The salesperson can offer a modified system for saving or reducing costs for the prospect. There can be no better way to attract attention than making an offer of a benefit that will save money for the prospect.

Another way of approaching the prospect could be to get a reference for the prospect from one of the existing, satisfied customers. Salesperson's dress, speech, mannerism and level of confidence also play an important role at this stage.

The Presentation

This is the main phase of the sale. It is an attempt by the salesperson to communicate the product's benefits and explain appropriate courses of action to the potential buyer. Miniature models of the product, along with slides, pictures, video tapes, booklets, flip charts, etc., help to communicate the product's message to the prospect.

Various formats for presentation are used. Among the popular ones are: 1) AIDA format which has already been discussed earlier where the sales person moves the prospect through different stages of readiness to buy from Attention to Interest to Desire to Action. 2) In the second format, canned presentation is used. In this salesperson delivers a memorised sales talk including a number of key words (stimuli) to produce a favourable response in the prospect. That is why this approach is also called the **stimulus-response approach**.

From a stimulus-response presentation the salesperson has to list all the prospect's possible buying motives (reasons for buying). Then the product's features are translated into selling points to show what each will mean to the prospect. For example, to say that a ball pen has a "platinum tip" may have little meaning to a prospect. It must be translated into selling points such as "will not skip", "will not leak", to influence the prospect's buying behaviour.

Essentially in a presentation, some claims about the product are made aiming at the prospect's likely buying motives. By the use of various techniques, the truth of these claims is proved.

Handling Objections

If the prospect says no, he is interested. Even if the prospect is friendly and interested in the product, he may have reservations (doubts) about the purchase. Questions or objections are likely to arise. Since objections explain the reason for resisting or delaying the purchase, the salesperson should listen and learn from them.

When the prospect does not fully understand a point, the salesperson should comment on the area of uncertainty. For example, a prospect for a washing machine might want to know whether an ordinary detergent can be used for machine washing. The salesperson should then clarify the advantages/disadvantages of using an ordinary detergent. Good salespeople encourage prospects to raise objections.

Objections can be turned into counter arguments. For example, a stock broker might say "you are right Mr. Khanna, the price of this stock has dropped 50% in the last 6 months. That is exactly why I am recommending it to you. At this price, in the opinion of our experts, it is an excellent buy." The salesperson should avoid getting into argument to prove a point, because he can "win an argument only to lose a sale". We notice in the above example that the salesperson first agreed and then counter-argued to make his point. This is the right way to do it. The prospect's questions or objections show how close is the prospect to the purchase decision.

Closing the Sale

It has been said that "if a salesperson does not ask for the order and get it, he is not only wasting his time but is working for the competition". There comes a point when the presentation must be drawn to its logical conclusion i.e., close the sale which means ask for the order.

Sometimes a prospect might help with a question such as "when can you make this delivery?" The salesperson should quickly answer the question and ask for the prospect's signature on the order.

A **Trial Close** is a method used to obtain information from the prospect which will signal whether the prospect is ready to buy or not. If the prospect gives positive answers to questions such as "which colour would you prefer?", "Which model do you like?", "When would you like it to be delivered?".

Would you like to pay in-cash or by cheque or online?", he is ready to buy and the salesperson should use the opportunity to close the sale.

Follow up

Getting an order is not the end of the selling process. It is in fact the beginning. The sales person has to follow-up to make sure that everything was handled as promised, and the order was shipped on time and received on

time by the prospect. A good follow-up is the key to building up loyal customers and increasing business. The customer should be reassured that he has made the right purchase decision, and the salesperson will always be ready to help in case of any future problem.

Check Your Progress C

- 1) List out various stages in the personal selling process.
- 2) What is the difference between the approach stage and presentation stage of the personal selling processes ?
- 3) Fill in the blanks.
 - i) Salespeople identify and screen prospects during the stage of the personal selling process.
 - ii) Chander has identified and qualified several prospects. He is now ready to enter the stage of the personal selling process.
 - iii) The AIDA concept is used during thestage of the personal selling process.
 - iv) Amit Sharma is a successful salesman who seems to be able to keep a majority of his clients as regular customers. Amit is performing the..... stage of the personal selling process.
 - v) A is a method used to obtain information from the prospect, which will signal whether the prospect is ready to buy or not.

15.6 SALESPERSON

No two selling jobs are alike. The types of selling jobs will determine the qualities required in salespeople to accomplish the sales objectives. If an over qualified person is assigned to a job which can be accomplished by a less qualified individual, it will be a waste of talent and resources. On the other hand, placing a salesperson in a position where his skills are not appropriate, will be unfair to him.

15.6.1 Types of Personal Selling

There are three basic categories of selling positions: 1) Order taking, 2) Order getting, and 3) Sales support positions. Each of these three positions require different skills. Let us examine them one by one.

Order Taking

A lot of people in sales perform jobs of a routine nature. These people do very little creative selling and are called **order takers**. Their job is to note orders and assure their timely processing. In most of these situations, the

customer decides the products required and the size of the order. There are three types of order takers:

1) driver salesman, 2) inside order taker, and 3) outside order taker.

- 1) **Driver Salesman:** Examples of this type include soft drinks, milk and petroleum salesmen. Such people do not have any major selling responsibilities. They just deliver the quantity desired by the customer. A good relationship with the customer might result in a little extra sale.
- 2) **Inside Order Taker:** A retail clerk behind the counter in a shop is called inside order taker. When the customer enters the shop, he/she has already made up his/her mind on what to buy. The salesperson only serves them. At the most, the salesperson may recommend a new product. There is hardly any creative selling involved in this type of sales job.
- 3) **Outside Order Taker:** A person who goes to the customer in the field and takes orders is called outside order taker. Examples are, salesmen who sell soaps, toothpastes and other household necessities to general merchants and provision stores. They are generally seen going around in tempos or three wheeler vans to Shops for replenishing sold stocks. They fill up invoices for products and quantities required by the shopkeeper and process/deliver the requirements either immediately or later.

Order Getting

Here the job is not routine. These salespeople must meet customers, promote the benefits of the product/service, and persuade the buyer to purchase the right quantity volume of the product or service.

You should note that an order taker's job is to keep the sale, whereas an order getter's job is to make the sale. In these situations a very high degree of creative selling is required. The various types of order getters are: 1) creative sellers of tangible products and 2) creative sellers of intangibles (including services).

- 1) **Creative Sellers of Tangible Products:** Persons selling encyclopaedias, vacuum cleaners, computers, etc., come under this category. When the product is of atechanical nature, the services of a sales engineer might be used. A high degree of creative selling is needed because the customers may not even be aware of their needs for the products, or they may not realise how the new products can serve their wants better.
- 2) **Creative Sellers of Intangibles:** People selling services such as insurance travel, advertising and consultancy, etc., come under this category. This is even more difficult than selling tangible products because services cannot be seen or demonstrated.

Sales Support Positions

Here is the salesperson neither expected nor permitted to solicit an order. Their job is to build goodwill, perform promotional activities and provide services for customers. Hotel PRO and other executives call on large companies to make them aware of the services available in the hotel without asking for any bookings, or they might handle customer complaints, or promote new schemes launched by the hotel. Similarly in pharmaceutical selling, the medical representatives provide the doctors with the latest information on the company's drugs and medicines. They do not take orders, and infact the sale occurs when the doctor writes a prescription.

15.6.2 How Salespersons are Different from Others?

Before we discuss about the qualities of a good salesperson, we should first know how the salespersons are different from other employees. Salespersons differ from other persons in the following ways:

- 1) Salespeople represent their company to the customer and society in general.

Opinions about the firm and its products are formed on the basis of impressions left by salespeople. The public does not judge a company by its factory or office workers.

- 2) An office or factory employee works under close supervision, whereas a salesperson works under little or no direct supervision. Once salesperson is assigned a territory and targets to achieve, he operates quite independently.
- 3) A salesperson must work hard physically and mentally and be creative. This requires a greater degree of motivation than required for other office jobs.
- 4) A salesperson needs more tact and social intelligence than other employees at the same level in the organisation. Many sales jobs require salespeople to mix socially with customers, who may be senior ranking officers. Hence a salesperson is expected to show a high degree of socialising and restraint.
- 5) Salespeople are authorised to spend company's funds. How the salesperson handles this responsibility can affect marketing costs.
- 6) Sales jobs often require a lot of travelling which demands time away from home and family. Apart from physical hardships, this also may cause a lot of mental stress and disappointment. A sales job, therefore, requires a greater degree of mental toughness and physical stamina.

15.6.3 Qualities of a Good Salesperson

Although different types of selling situations require different qualities in salespeople, there are, however, some common qualities that are needed in all types of sales work. The extent to which each quality is required will vary according to the type of sales job.

- 1) **Physical Qualities:** This relates to the person's health and appearance. As we have seen that most sales jobs involve a lot of travelling, sometimes under adverse conditions, good health is very important. Good health also has an indirect effect on the person's mental make-up and general attitude towards work. Physical illness might lead to a state of mental depression and frustration.

A good physical appearance is also necessary. This means a neat, clean and impressive dress. A sales person should look well groomed.

- 2) **Communication Ability :** Creative selling in particular and other types of selling in general, involve a two communication process. The success of a sales presentation depends a lot on the presentation quality of the salesperson. This means that the salesperson should have a controlled voice (no speech defects), a good command over the language, good impression and the ability to listen. A sales person should be not only a good talker, but also a good listener.
- 3) **Mental Qualities:** Characteristics such as analytical ability, intelligence, conceptual skills, etc., are also essential for a good salesperson. He should be able to apply his mind to various problems of customers.
- 4) **Education and Experience:** The Salesperson should have the minimum educational qualifications needed for the job. In most situations, he has to be at least a graduate, except in cases where sales engineers are required. For jobs requiring experience, greater emphasis is given to related work experience.
- 5) **Enthusiasm:** It is another essential quality required in a salesperson, especially where creative selling is involved. A salesman should be excited and proud about his product and his company. For this he needs to have a thorough knowledge of not only his company and product, but also of competitors. Enthusiasm and sincerity can help in gaining the prospect's attention.
- 6) **Courtesy:** Good manners are important to all salespeople including order takers. They must listen to prospects attentively, speak considerately and differ respectfully.
- 7) **Initiative:** Initiative is very crucial in selling. Since most salespeople are very much on their own, they have to be self-starters. They have to seek out new customers, and find new ways to sell to old customers. For all this, salesperson should have initiative.

- 8) **Empathy:** This refers to the ability to put one self in the other's shoes. A salesperson should see the sales problem from the buyer's point of view.
- 9) **Dependability:** The salesperson should be able to handle anything not covered in his training. The company should be able to depend on him for dealing with unfamiliar situations.
- 10) **Integrity and Honesty:** Since the salesperson has access to the company's funds, he needs to be totally honest in handling this responsibility. He should not hide facts or mislead the company even if he loses sales.

Check Your Progress D

- 1) What is the difference between Order Taking and Order Getting?
- 2) List out the qualities a good salesperson.
- 3) Fill in the blanks:
 - i) The most creative selling position is probably that of
 - ii) A department store clerk is primarily a
 - iii) Sudhir Verma is a detail man for Glaxo Laboratories, calling on doctors to inform/educate them about the Company's products. Sudhir is best described as.....
 - iv) A sales person should look well.....
 - v) Salesmen who sell cold drink and milk are examples of

15.7 SALES PROMOTION

As discussed earlier, **sales promotion consists of a wide variety of incentives, generally short-term, designed to increase and expand the market through a quicker and/or greater purchase of a product by final customers or intermediaries.** In the words of Philip Kotler, one of the best known experts in marketing today, *'advertising offers a buy, sales promotion offers an incentive to buy.*

Sales promotion is mainly intended to make advertising and personal selling more effective. They are complementary and supplementary activities. Sales promotion has gained importance in recent times, because of its ability in promoting sales and preparing the ground for future expansion. In this world of competition, some marketers adopt continuous sales promotion as a way of achieving marketing goals.

15.7.1 Importance of Sales Promotion

Most companies are spending more on sales promotion than on advertising and this trend is expected to continue. Factors which have accounted for this rapid growth are as follows:

- 1) Sales promotion is more accepted by top management of companies as an effective sales tool.
- 2) More product-level managers are qualified to use sales promotion tools.
- 3) Product managers are under greater pressure to increase the sales
- 4) The number of brands has increased and there is very little difference between competing brands.
- 5) Competitors use sales promotion frequently.
- 6) Both final consumers and intermediaries have become more deal-oriented i.e., they are demanding better deals from the producers.
- 7) Advertising efficiency has declined because of rising costs and clutter (too many advertisements appearing together create noise).

Some of the other important reasons for the growing importance of sales promotion are discussed below:

- 1) **Lowers the unit cost:** Sales promotion is always the outcome of large scale production, which in turn lowers the cost. This can be achieved only through proper methods of large scale selling.
- 2) **Provides sales support:** Good sales promotion makes the salesperson's effort more productive. It reduces his time spent in prospecting and also reduces rejections.
- 3) **Faster product acceptance:** Most sales promotion devices (contests, premiums coupons, etc.) can be used faster than other promotions e.g., advertising.
- 4) **Better control:** Management has effective control over the methods used. It also gives financial control e.g., the cost of sales promotion could be compared with the profit per unit.

Limitations of Sales Promotion

Along with the above advantages there are some limitations of sales promotion as well.

- 1) It is felt that sales promotion is used to sell an inadequate product.
- 2) The discounts are not real, since the price of the product has already been raised.
- 3) Since it is a short-term activity, the result is also short-term. When concessions are withdrawn, the demand falls.
- 4) If it is used too often consumers will tend to get put off.

15.7.2 Major Sales Promotion Tools

Sales promotion tools fall into three basic categories: 1) Consumer Promotion, 2) Trade Promotion, and 3) Sales Force Promotion. Let us learn them in detail.

Consumer Promotion

Sales promotion at a consumer's level includes two types of premiums: 1) direct premium, and 2) conditional premium.

- 1) **Direct Premium:** A consumer premium is an incentive offered to a consumer for buying a product or service. Under the **direct premium** scheme, the buyer gets the benefit of the premium offer immediately on the purchase of a product. Gift articles given to buyers along with purchases of products are known as "Over the Counter" or "Pack Off" premiums. The product and the gift may be from the same company or different companies. For example, "one free Colgate toothbrush with a family size toothpaste" or it could be "Lux soap with Sunsilk Shampoo" or it could be "Pearl pet jars with Binnies potato wafers". There are two types of direct premiums: i) price deals, and ii) quantity deals.
 - i) **Price Deals or Price Off-offers:** These are also direct premiums which offer reduction in prices for a short period. Price discounts on Khadi during Diwali or Gandhi Jayanti is an example in this regard. This is normally done either when the sales are declining or a competing product enters the market.
 - ii) **Quantity Deals:** Consumers are sometimes offered more quantity at no extra cost or at a nominal increase in price. For example, the appeal by 'Thumps Up', "More Cola same Price" - is quantity deal.
- 2) **Conditional Premiums:** Here the buyer has to perform certain addition functions. e.g., collecting coupons or wrappers. There are a number of methods in this category.
 - i) **Coupon Premium Plan:** This is supposed to induce repeat purchase for building brand loyalty for instance, in return for three foils from tins of Cadbury Chocolate, a recipe book was offered. Similarly, a Jungle Book was offered by Maggie Noodles in return for coupons in a given sequence.
 - ii) **User to User Scheme:** Here the company wants satisfied customers to endorse the product and thereby increase the sale. For example, Reader's Digest magazine offers diaries to its regular subscribers for introducing new subscribers.
 - iii) **Consumer Contests:** Contests are launched to get consumers to buy the product and boost the sales. For instance, Blowplast offered "Around the World Trip for Two" as the first prize in their contest.

Entry into the contest was obviously open only to those who had purchased VIP luggage within a given period.

- iv) **Refill Packs:** For example, Nescafe offers refill packs in boxes, which saves the cost on metal containers, and thus the benefit is passed on to the customer.
- v) **Deferred Payment Plan:** Many airlines in the early 1980's had the slogan "Fly now Pay later" to overcome stiff competition. Here the incentive to the customers was in the form of deferred payment.
- vi) **Money Refund Offer:** Here the company promises to refund the full value if the customer is not satisfied with the product.
- vii) **Self-Liquidating Premium:** The cost of the premium is partly collected from the buyer himself. It means giving an additional product at a concessional price .For example, a washing soap company may offer a plastic bucket at concessional price for a specific number of soaps bought by the customer. Even though the buyer pays, he pays a very low price for the premium. This is possible because the manufacturer buys the premium in bulk and its cost per unit is low.

Trade Promotion

These incentives are aimed at obtaining maximum cooperation from dealers below: (wholesalers and retailers). The major types of dealer or trade incentives are discussed below:

- 1) **Merchandise Deals:** Sometimes the producer offers extra quantities of the product for bulk purchase by the dealer. Some companies use such deals to provide greater exposure to their other products with the dealers.
- 2) **Price Deals:** Special price discounts are offered to the dealers, over and above the regular discount. This is a temporary price reduction for dealers. It leads to quick profits for wholesalers and retailers.
- 3) **Gifts to Dealers:** Sometimes a company may give gifts like watches, clock, transistors, etc., to dealers according to the volume of orders placed by them.
- 4) **Merchandise Allowance:** This is a short-term contract through which a producer compensates wholesalers or retailers for advertising or in short display of the company products.
- 5) **Cooperative Advertising:** Here the manufacturer makes a long-term contract to pay an allowance to retailers in relation to the quantity of products purchased by them or the retailers share the advertising expenditure with the manufacturer on an agreed formula.

- 6) **Dealer Contests:** This is an indirect way of promoting sales. These contests take the form of window displays, internal store displays, sales contests (large sales volume), etc. The winners are given cash or other attractive prizes.

Sales-Force Promotions

A large proportion of the companies' sales promotional effort is aimed at the company's own sales-force. The idea is to make sales peoples' efforts more effective. The methods might include sales contests, bonuses or premiums, etc. Even sales meetings are some times used as incentives. Sales contests stimulate and motivate salespeople, as prizes are awarded to them on the basis of achievement of targets set for them.

Check Your Progress E

- 1) List out the tools used in consumer promotion.
- 2) List out the tools used in trade promotion.
- 3) Fill in the blanks.
 - i) Sales promotion offers buyers to buy.
 - ii) Merchandise deal is a promotion tool.
 - iii) Direct premium is a.....
 - iv) Sales Promotion is a term activity.
 - v) Under an additional product is given at concessional price.

15.8 LET US SUM UP

Personal selling is a person-to-person dialogue between buyer and seller, where the purpose of the interaction is personal persuasion. Many marketing situations require the involvement of a salesperson, who can effectively communicate the benefits of products being offered. Sales message should be adapted to suit the individual needs of each prospective customer. Personal selling is the most expensive promotional tool in a company. Personal selling and sales promotion are often viewed as one and the same. But sales promotion is indirect and does not involve a face-to-face contact. It offers an incentive for a limited period to induce a desired response from target customers and/or dealers.

Personal selling is the most commonly used promotional tool. It helps to reduce marketing and production costs. It helps to introduce new products and facilitates consumption. The basic objectives of personal selling are: 1) to find prospective customers, 2) to convert these prospects into customers, and 3) to keep them as satisfied customers. These form the basis of the creative selling process, which consists of the following steps: 1) prospecting, 2) pre-

approach, 3) approach, 4) presentation, 5) handling objections, 6) closing a sale, and 7) follow-up.

There is a wide variety of selling jobs, which can be classified under three heads: 1) order takers, 2) order getters, and 3) sales support positions. The types of jobs include: driver salesmen, inside order takers, outside order takers, missionary salespersons, sales engineers, and creative sellers of tangibles and intangibles.

Sales jobs differ from other jobs in terms of working conditions and characteristics/qualities needed for the job. A sales job requires less supervision, higher motivation, greater travelling, greater social intelligence, greater mental toughness and physical stamina than other jobs in the company at the same level. Some of the qualities a good salesperson should possess are: health, appearance, communication ability, intelligence, enthusiasm, initiative, honesty and empathy.

Sales promotion covers a wide variety of short-term incentives designed to induce a desired response from target customers, company salespeople or intermediaries. These activities add value to the product. Sales promotion tools include: premiums, price deals, quantity deals, coupons, consumer contests, dealer contests, sales contests, user to user schemes, refill packs, deferred payment, money refund offer, self-liquidating premiums, merchandise deals and allowances, cooperative advertising, displays, etc All these fall into three categories: 1) consumer promotion, 2) trade promotion, and 3) sales-force promotion.

15.9 KEY WORDS

AIDA: Stands for Attention, Interest, Desire, and Action which are the four stages of a prospect's readiness to buy.

Closing: The last stage in the creative selling process where the salesperson should ask for the order.

Handling Objections: A stage in the creative selling process where the salesperson overcomes the customer's (prospect's) resistance and reluctance to buy the product.

Missionary Salespeople: These are sales support positions where salespeople are neither permitted nor expected to get an order e.g., medical detailers.

Order Letters: These salespeople seek out customers, persuade and motivate them to buy the product. They are creative sellers of tangible and intangible goods.

Order Takers: Type of salespersons who write orders and assure timely processing of orders. There is no creative selling involved in this job.

Prospecting: The first stage is the creative selling process where salespeople try to locate, identify and qualify prospects (potential customers).

Sales Promotion: A promotional activity that offers an incentive for a limited period to induce a desired response from target customers, company salespeople or intermediaries

15.10 ANSWERS TO CHECK YOUR PROGRESS

- A 2 i) False ii) True iii) False iv) False v) True
- B 4 i) True ii) True iii) False iv) False v) True
- C 3 i) prospecting ii) pre-approach iii) presentation iv) follow-up
v) trial close
- D 3 i) creative seller of intangibles ii) inside order taker
iii) missionary salesperson, iv) groomed, v) driver salesman
- E 3 i) incentive, ii) trade, iii) consumer, iv) short
v) self-liquidating premium

15.11 TERMINAL QUESTIONS

- 1) What is personal selling? Explain its importance in marketing.
- 2) What is personal selling? How is it different from sales promotion?
- 3) Explain various theories of personal selling.
- 4) You are a salesperson working in a pharmaceutical company. Explain the procedure how do you approach your customers and get orders.
- 5) Who is a salesperson? Explain the qualities of a good salesperson.
- 6) What is sales promotion? Explain the major sales promotion tools.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

UNIT 16 ADVERTISING AND PUBLICITY

Structure

- 16.0 Objectives
- 16.1 Introduction
- 16.2 What is Advertising?
- 16.3 Objectives of Advertising
 - 16.3.1 Generalised Objectives
 - 16.3.2 Specific Objectives
- 16.4 Role of Advertising
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 - 16.7.1 What is Publicity?
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 - 16.7.4 Generating Publicity
- 16.8 Let Us Sum Up
- 16.9 Key Words
- 16.10 Answers to Check Your Progress
- 16.11 Terminal Questions

16.0 OBJECTIVES

After studying this unit, you should be able to:

- define advertising;
- state the objectives of advertising;
- explain the advantages and criticism of advertising;
- identify various media of advertising and explain their characteristics;
- describe various factors that determine the choice of media for advertising;

- define publicity and differentiate it from advertising; and
- discuss various means of generating publicity.

16.1 INTRODUCTION

You have already studied that there are four components in promotion mix. They are: advertising, publicity, personal selling and sales promotion. We have already discussed about personal selling and sales promotion in the previous unit. In this unit we will study about advertising and publicity. You will study the meaning, objectives, role, various parties involved and media decisions of advertising. You will also study the meaning of publicity, how is publicity different from advertising and various means of publicity generation.

16.2 WHAT IS ADVERTISING ?

The word Advertising has been derived from the Latin word "Advertere" which means to turn (the mind) to. Broadly speaking, advertising does turn the attention to a commodity or service.

One of the earliest attempts in defining advertising was as follows: *"The dissemination (spreading) of information concerning a product, service or idea to compel action in accordance with the intent of the advertiser."*

This definition could include persuasive selling through personal communication. It was, therefore, considered necessary to avoid this overlap. ***The American Marketing Association*** defined advertising as *"any paid form of non personal presentation and promotion of ideas, goods or services, by an identified sponsor."* Rephrasing this definition we might say that ***"Advertising is a paid, non personal communication from an identified sponsor using mass media, to persuade or influence audience."***

Salient features of the definition are as follows:

- 1) **Paid Messages:** This implies that all advertising messages have to be paid for, thus, involving a commercial transaction. Payment is made by the advertiser (sponsor) for buying space (if media like newspapers, magazines, journals or brochures, etc., are used) and times (if broadcast media such as TV or Radio are used).
- 2) **Non Personal Channels:** This means that whatever may be the form of advertising messages (visual, spoken or written), they are directed at a mass audience, (unlike personal selling where the salesperson interacts directly with the customer in a one-to-one encounter). Quite obviously, in reaching a large number of people with the advertising message, the advertiser has to use mass media, such as newspapers, magazines, radio, television, hoardings, direct mail, etc.

- 3) **Ideas, Goods and Services:** This feature implies that messages may be related to tangibles (products such as soaps, detergents, toothpastes, music systems, colour TVs, etc.) or intangibles (services such as banking, insurance, travel, consultancy, hotels, etc.) or ideas (such as suggestions by car manufacturer for improving the mileage of cars). This relates to the proposition being promoted by the advertiser.
- 4) **Identified Sponsor:** This simply means that the originator or source of the advertising message must be identified. **It states that advertising bears a signature in form of a company or brand name.** In some cases the brand name and the company's name might be specified in the advertisement. For example, most "Godrej" and "Tata" products are advertised with brand name as well as company name whereas others such as Lux, Pears, etc. , carry the brand name only. **Any communication, using mass media not identified by a sponsor is not an advertisement.**

Check Your Progress A

- 1) What is Advertising ?
- 2) What are the main features of advertising?
- 3) Look at Figure 16.1 and analyse it, in terms of the essential features of advertising and state whether the communication/message can be called an advertisement or not.
 - i) Type of medium.....
 - ii) Type of communication
(Personal/Non-personal)
 - iii) Sponsor
 - iv) Whether paid.....
 - v) Product

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Figure: 16.1

16.3 OBJECTIVES OF ADVERTISING

The Chairman of American Express Company had once said "*good advertising must have three effects: i) increase sales, ii) create news, and iii) enhance the company's image.*" In a strictly commercial sense these three elements would constitute the underlying purpose of all advertising. A simple interpretation of the above statements means that advertising must result in the growth of the company's business, create an impact and promote a favourable image of the company.

16.3.1 Generalised Objectives

Typically advertising has one or more of the three fundamental or basic Objectives:

- i) To **inform target customers**. This information essentially deals with areas such as new products introduction, price changes or product improvement or modifications.

- ii) To **persuade** target audiences, which includes functions such as building brand preference, encourage people to switch from one brand to the other brand etc.
- iii) To **remind** target audience for keeping the brand name dominant.

Generalised advertising objectives fall under one or more of the following categories:

- 1) **To announce a new product or service:** In a saturated market, the introduction of new products and brands can give the seller a tremendous opportunity for increasing his sales. In the case of innovative products (totally new to the market) such as 3D printers and Apple Airtags, a great deal of advertising has to be done over an extended period of time to make people aware of “What the product is” and “What it does” and “How the customer would find it useful”. In addition, the advertisement also carries information about the availability of the product and facilities for demonstration/trial, etc. Similarly new brands of existing product categories are also promoted quite aggressively. Two examples are the launching of ‘Colgate Vedshakti’ and ‘Fair and Handsome’. Look at Figure 16.2 for an advertisement introducing a new product.



Figure 16.2 :Advertisement introducing a New Product

- 2) **Expand the market to new buyers:** Advertising can be used to tap a new segment of the market hitherto left unexplored. For example TV and Video Camera manufacturers who have been concentrating on domestic users and professionals can direct their advertising to the government institutions and large organisations for closed circuit TV networks,

security systems and educational purposes. Another way of expanding the consumer base is to promote new uses of the product. For example, Johnson's baby oil and baby cream were originally targeted to mothers. The same products have now been directed towards the adult market for their personal use. Similarly, Milkmaid was originally promoted as a substitute for milk. It is now being advertised as an ingredient for making sweet dishes and also as a sandwich spread for children. Look at Figure 16.3 in this regard.

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Figure 16.3 : Expanding the Market to New Buyers.

- 3) **Announce a product modification:** For such advertising, generally, the term “new”, “improved” etc. , are used as prefixes to the brand name. For example, “New turbo power cleaner” gives the impression of a new, although there may be no tangible difference between the earlier brand

and the new one. Sometimes a minor packaging change might be perceived by the customer as a modified product e.g., “a new refill pack for Nescafe”.

- 4) **To make a special offer :** On account of competition, slack season, declining sales, etc., advertising may be used to make a special offer. For example Buy groceries online and get Rs. 1 deal at Flipkart. We often come-across advertisements announcing. “Rs. 2 off” on buying various quantities of products such as soaps, toothpastes, etc. Hotels offer special rates during off season. Similarly many products like room heaters, fans, air-conditioners, etc. , offer off season discounts to promote sales.
- 5) **To announce location of stockists and dealers:** To support dealers, to encourage selling of stocks and to urge action on the part of readers, space may be taken to list the names and addresses of stockist and dealers. Look at Figure 16.4 for the advertisement which gives the addresses of the dealers.



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Dealer enquiries for the following cities are requested : BHOPAL • COIMBATORE • JAIPUR • KANPUR • LUCKNOW • MADURAI • PATNA

Figure 16.4: Advertisement Giving the Address of Dealers.

- 6) **To educate customers:** Advertising of this type is “informative” rather than “persuasive”. This technique can be used to show new users for a well established product. It can also be used to educate the people about an improved product e.g. Pearl Pet odour free jars and bottles. Sometimes societal advertising is used to educate people on the usefulness or harmful effects of certain product. For example, government sponsored advertising was directed at promotion consumption of "Eggs and Milk". Similarly, advertisements discouraging consumption of liquor and drugs.
- 7) **To remind users:** This type of advertising is useful for products which have a high rate of “repeat purchase” or those products which are bought frequently e.g., blades, cigarettes, soft drinks, etc. The advertisement is aimed at reminding the customer to ask for the same brand again.
- 8) **To please stockists:** A successful retail trader depends upon quick turnover so that his capital can be reused as many times as possible. Dealer support is critical, particularly for those who have limited shelf space for a wide variety of products. Advertisers send “display” material to dealers for their shops, apart from helping the retailer with local advertising.
- 9) **To create brand preference:** This type of advertising does two things: (i) It creates a brand image or character. (ii) It tells the target audience why is Brand X better than Brand Y. In this type of advertisement the product or brand acquires a ‘personality’ associated with the user, which gives the brand a distinctive ‘image’. The second type of advertising also known as ‘**comparative advertising**’ takes the form of comparison between two brands and proves why is one brand superior. Advertisements of “Colgate and Pepsodent,” “Reliance Jio and Airtel” are some examples.
- 10) **Other objectives:** Advertising also helps to boost the morale of sales people in the company. It pleases sales people to see large advertisements of their company and its products, and they often boast about it. Other uses of advertising could include recruiting staff and attracting investors through “Public Issue” advertisements announcing the allotment of shares, etc.

16.3.2 Specific Objectives

From the advertiser’s point of view advertising objectives are defined in terms of (a) **communication objectives** and (b) **sales objectives**. Sales objectives relate to the sales volume the company hopes to achieve for every rupee spent on advertising. Since the measurement of increase in sales volume as a result of advertising involves complex procedures, it is beyond the scope of this unit. So, in this unit **we shall confine our discussion to “communication objectives”**.

Communication Objectives of Advertising

Advertising is a psychological process which is designed to **induce** behaviour in an individual leading to a purchase. In other words, one of the major objectives of advertising is to change the person's attitude in a way that moves him or her closer to the product or service being advertised. But purchase behaviour is the result of a long process of consumer decision making. It is important for the advertiser to know how to move the target customers from their present state to a higher state of readiness-to-buy.

We will look at advertising as a force which moves people up a series of steps, as shown in Figure 16.5

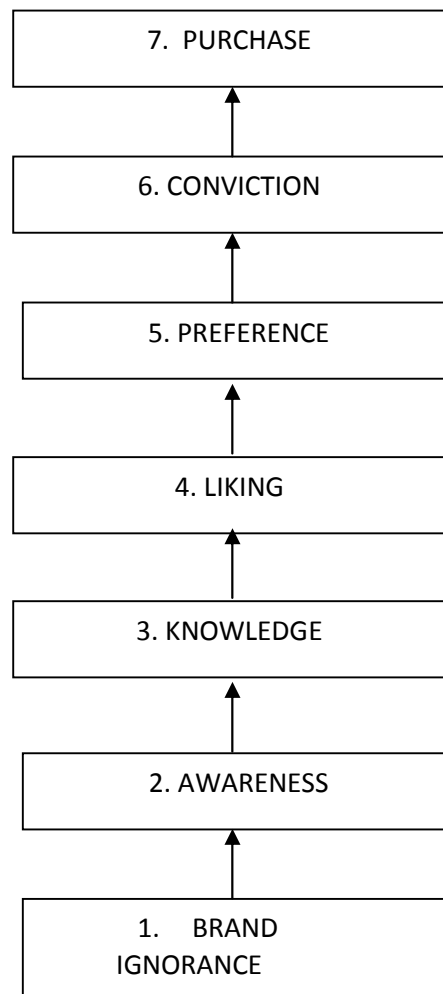


Figure 16.5 : Hierarchy of Effects

The seven steps (also known as the “**Hierarchy of Effects**”) are described as follows:

- 1) **Brand ignorance:** This stage includes potential buyers who are completely unaware of the product or service.
- 2) **Awareness:** Target customers are aware of the existence of the product in the market.
- 3) **Knowledge:** People know what has the product to offer.

- 4) **Liking:** People have favourable attitudes towards the product — those who like the product.
- 5) **Preference:** People's favourable attitude had developed to a point of preference of this brand over competitors' brand. Comparative advertising described earlier plays a very important role here.
- 6) **Conviction:** Customers combine preference with a desire to buy and are also convinced that they wish to purchase.
- 7) **Purchase:** This is the step which translates the attitude formed in step 6 into an actual purchase.

This model can be used for setting advertising objectives by a company. The advertiser must determine the proportion (percentage of the total target audience) of people who are at different stages mentioned above and then set the objectives accordingly.

For example, a company decides to launch a new brand of potato wafers (such as Lays) for the first time. Obviously, the potential buyers will be unaware of the brand. Therefore, the advertising objective of the company would be to create awareness, with simple messages repeating the name. That is exactly what Lays did.

Similarly, a company with a product which has been in the market for sometime, discovers that only a small percentage of the people are aware of the product. The advertising objective would be to increase awareness, say from the present 10% to 40% of the total target audience.

An important implication of this model is to determine the number of people at each stage and then decide the objective to move the customer closer to the point of purchase. Different types of advertising messages will have to be designed for different stages or steps shown above.

16.4 ROLE OF ADVERTISING

Advertising is beneficial to producers, middlemen, customers and the society as a whole in many aspects. However, there are some people who are very critical of the impact of advertising on the society. Let us now understand the criticism and merits of advertising.

16.4.1 Benefits of Advertising

- 1) **Benefits to Producers:** Advertising is beneficial to producers in the following respects:
 - i) It leads to an increase in sales volume. This increase in sales volume leads to a higher rate of production which in turn may lead to economies of scale resulting in a lower cost per unit. Further in the absence of advertising, the company would be spending more

money on other expensive means of promotion such as personal selling and sales promotion.

- ii) Advertising helps in easy introduction of products in the market.
- iii) It helps to establish direct contact between manufacturers and customers.

2) **Benefits to the Middlemen:** Middlemen, particularly wholesalers and retailers derive the following benefits from advertising:

- i) It is easier for them to sell products because consumers are aware of the product and its quality through advertising.
- ii) The product reputation which is created through advertising is shared by wholesalers and retailers alike.
- iii) It enables wholesalers and retailers to acquire product information.

3) **Benefits to Customers:** Advertising is beneficial to customers in the following aspects:

- i) Advertising stresses quality and very often prices. This forms an indirect guarantee to customers. Furthermore large scale production assured by advertising enables the seller to reduce the production cost and sell the product at a lower price.
- ii) It helps the customers to know where and when the products are available. This reduces their shopping time.
- iii) It provides an opportunity to customers to compare the merits and demerits of various substitute products.
- iv) Modern advertisements are highly informative. It is perhaps the only means through which consumers come to know about varied and new uses of products.

4) **Benefits to the Community:** Community as a whole also derives the following benefits:

- i) Advertising leads to large-scale production, thus, creating more employment opportunities. It assures employment opportunities to advertising process i.e., artists, copywriters, etc.
- ii) It starts a process of creating more wants and their satisfaction, resulting in a higher standard of living. Advertising has made more popular and universal inventions such as automobiles, radios, TVs and other household appliances.
- iii) Newspapers would not have become so cheap and popular if there had been no advertisements. It is the advertising revenue that makes newspapers thrive.

- iv) Advertising need not necessarily lead to a monopoly. It is quite possible that new entrants with better and newer products have a better chance of acceptance by the consumers; as we have seen in the case of colour TVs such as Onida and Videocon which entered the market very late, but were able to establish distinctive brand images for themselves.

16.4.2 Criticism of Advertising

Some people are critical of advertising for the following reasons:

- 1) **Most Advertising is in bad taste:** If advertisements speak the truth, then we Indians smell worse, suffer from dandruff, colds, indigestion and bad teeth, more than any other people in the world. Movie advertisements are considered repulsive by even the most liberal people. Advertisements are noisy, illtimed and sometimes even stupid.
- 2) **Advertising insults consumer intelligence:** When an advertisement claims that Brand X tyres give more mileage; it does not say more mileage than what? The claim is indefinite. Most people do not like being talked down to. For example an advertisement which begins with “Did you know ?” is not well received by many people.
- 3) **Advertising appeals mainly to emotions:** It is felt that advertising is less rational and objective and more emotional. For example, an advertising appeal for an After Shave Lotion states that it makes the user more desirable and attractive to the opposite sex, rather than focusing on the antiseptic value of the lotion or its price.
- 4) **Advertising is a source of discontent:** This argument claims that if it was not for advertising we would be less aware of the material things around us in the world and would, therefore, feel more contented. For example, a person sees an advertisement for a Yamaha motorcycle. Here his want is not real because it did not originate within him. It becomes a source of discontent for him, because he can never be happy with the moped he presently owns.
- 5) **Advertising influences media:** Since advertisers provide a major source of revenue for the media, the media are likely to be influenced by the former. This financial dependence of media on advertisers can curb the freedom and autonomy they are expected to have. With the result, media will disseminate the kind of information the big business wants it to disseminate rather than provide information in line with public interest.
- 6) **Some other economic objections are as follows:**
 - i) **Advertising is not productive:** Advertising does not produce any tangible goods.

- ii) **Advertising increases cost:** Since the price of a product also includes the expenditure on advertising, the consumer tends to pay a higher price.
- iii) **Advertising leads to monopoly:** Advertising usually lays emphasis on brands. This emphasis makes the consumer a slave of a particular brand. Therefore, existing large producers tend to block new competitors from entering the market, by creating a high degree of brand loyalty through advertising.
- iv) **Advertising multiplies needs and wants:** It takes business from one concern and gives it to another. For example, people today are familiar with soap, toothpaste, talcum powder. When a new kind of talcum powder is introduced, advertising will only help to shift demand from one product to another.

16.5 PARTIES INVOLVED IN ADVERTISING

In the advertising the pattern involved are: 1) advertisers, 2) advertising agencies, 3) support organisations, 4) media, 5) consumers. Let us learn them.

- 1) **Advertisers:** These are the persons who sponsor the message. They may be producers, retailers, wholesalers, service organisations, labour unions, schools, government politicians, individuals and many more. Advertisers in short are people or organisations who pay the bills or the money required for advertising.
- 2) **Advertising Agencies:** These are independent business organisations which develop, prepare and place advertisements in media for clients who want to communicate to customers about their goods or services. Basically, advertising agencies offer potential advertisers (clients) a variety of specialised services which result in a finished advertisement. Such services include the following:
 - i) **Copywriting:** This refers to the written part of a print advertisement, including the headline, slogan and detailed description of product attributes wherever required. In broadcast media, the equivalent of this is called script-writing.
 - ii) **Advertising Art:** Refers to illustrations, drawings, photographs or other art form required in the finished advertisement.
 - iii) **Media Buying:** Involves specialists who negotiate rates with different media and gather other relevant information for buying space and/or time in suitable media.
 - iv) **Client Servicing:** An executive of the agency is assigned exclusively for handling a particular client. He/She is the connecting link between the client and the creative department in the agency.

v) **Other Services:** Include research, public relations and merchandising on behalf of the client.

- 3) **Support Organisations:** Modern advertising calls for specialists not employed either by the advertiser (client) or the advertising agency. These consist of casting specialists, cinematographers, film/tape editors, photographers, music and sound effect experts. Thus, a lot of outside help is required by the agency to produce a good advertisement. In addition, research has become a very important input for most advertising decisions, particularly to find out consumer attitudes, behaviours and profiles. It may not be possible for the agency or the client to carry out this function themselves. Therefore, they hire the services of outside experts. All such organisations are known as support organisations.
- 4) **Media:** As you know, advertising is a form of communication. As such it requires a channel through which the message can be conveyed to intended target audience. This channel is called a medium. Various types of media commonly used are newspapers, magazines, radio, television, hoardings, cinema slides, moving vehicles, etc. A detailed discussion on media will be taken up later in this unit.
- 5) **Consumers:** These are the people whom the advertiser is trying to reach with his message. However the correct term to use would be **target audience**.

Check Your Progress B

- 1) Advertising is said to be a 'force' which moves people up a series of steps indicating their readiness to buy. List out these steps.
- 2) State some of the major objections of advertising.
- 3) Name the important parties involved in the business of advertising.
- 4) State whether the following statements are **True** or **False**.
 - i) Advertising is exclusively a private enterprise marketing tool.
 - ii) Advertising is transmitted in mass communication media, not by individual sales people.
 - iii) Firms advertise with a purpose, but each advertisement does not have a specific objective.
 - iv) Advertising objectives are diverse, but these objectives have a common element: they involve changing the attitude and behaviour of some audience.
 - v) Brand image consists of emotional feelings buyers have towards a brand.

16.6 ADVERTISING MEDIA DECISIONS

The term medium applied to advertising refers to a channel of communication or a "vehicle" for carrying the advertiser's message to his target audience. The most brilliant and original advertising ideas will be wasted if they are not presented in the right place at the right time to the right people, at the lowest possible cost. It is interesting to note that the largest part of advertising expenditure goes towards the purchase of advertising media, space and time. The success of an advertisement depends as much on the medium as on the message.

16.6.1 Types of Media

Advertising media can be categorised into broad types: 1) Print media, 2) Broadcast media, 3) Direct advertising media, and 4) Outdoor media. However, within each of these four categories there will be several classes. For example, print media includes both newspapers and magazines. Under newspapers we might have such classifications as daily newspapers, weekly newspapers, morning newspapers, evening newspapers, and so on. In the case of broadcast media the choice of units is limited to channels or stations. Let us examine various types of media in detail.

Print Media

Print medium comprises newspapers and magazines. The main difference between newspapers and magazines is the periodicity of their publication. Newspapers are published daily, whereas magazines are published periodically i.e., weekly, fortnightly, monthly, quarterly or biannually. In both cases, however, the message is conveyed through words in print, sometimes along with pictures or photographs. Words in print can be made as attractive, appealing and informative as possible, so also the accompanying picture. But newspapers and magazines have certain distinct features of their own, which are outlined below.

Newspapers: Published in different languages, newspapers are widely and regularly read by the educated public. Reading newspaper is the daily habit of many people in cities and towns and some literate people in the villages. Many have also become accustomed to advertisements in newspapers and look for them as sources of information. The circulation of some of the national dailies in India runs into several millions. Newspapers published in regional languages have also wide circulation, sometimes in more than one state. Thus, as a medium of advertising, newspaper reach a very large number of people. Secondly, newspaper advertising is relatively cheap than other media like radio and television. The space to be used can be decided in accordance with the need and cost involved. Thirdly, newspapers provide the facility of repeating the message every day, if necessary. Besides, in case of urgency, there is scope for inserting an advertisement without much loss of time. Finally, it is possible to select a particular newspaper suitable for the

audience in view. For national coverage, a newspaper which has nationwide circulation can be selected. For regional coverage, a newspaper published in that regional language can be selected. Since newspapers are read by the general public, they may be used as suitable media for goods of mass consumption. Many people read the newspapers in the morning and put them aside afterwards. So, the life of the advertisement in a newspaper is short.

Magazines :Magazines are also periodicals as they are published at periodical intervals – weekly, fortnightly, monthly and so on. Different types of magazines are published for different categories of readers. For example, there are popular general magazines containing features articles, news and stories e.g., India Today, Illustrated Weekly, Dharm Yug, etc.

There are magazines for children (e.g., Target, Chandamama, etc.) which include stories of their interest. There are magazines like Business India, Fortune, Commerce, for businessmen and executives. Similarly, there are sports magazines (e.g., Sports Week, Sports Star, etc.), women's magazines (e.g., Femina, Women's Era) professional magazines (e.g., Indian Journal of Marketing, Indian Medical Journal, etc.). film magazines (e.g., Star & Style, Film fare, etc.) and so on.

From the point of view of circulation, magazines are not as widely read as newspapers. On the other hand each magazine has a distinct category of readers. Since magazines are generally read over a period of time, they have longer life than newspapers, Thus, advertisers use magazines as media selectively according to the audience to be reached. For example, medical books, drugs, surgical equipment, medical instruments, etc., are generally advertised in medical journals. Manufacturers of office equipment, computers, etc., advertise their products in business magazines, trade journals, and so on. On the whole, the cost of advertising in magazines is relatively cheaper compared to other media like radio and TV.

However, magazines have certain limitations. One relates to the timing of publication which is periodical. Although the published advertisement has a longer life, they are published periodically and not daily like newspapers. The other limitation is the lack of flexibility in the choice of size and design of the advertisement. The design cannot be changed as quickly as in the case of a newspaper. Moreover, the circulation of a magazine does not always indicate the number of readers of the time devoted by the readers in reading it. A magazine having limited circulation may be read more thoroughly or it may be read by many more persons than another magazine with a large circulation.

Broadcast Media

Broadcasting as a medium of advertising has become very popular and important. Broadcast media includes Radio and Television. Radio is simply an audio medium while TV is an audio-visual medium.

Radio broadcasting as a medium of advertising has been very popular in India due to the availability of radio set at prices which people of low income can also afford. In India radio sets are owned by a large number of population. Thus, advertisement appeals can reach the general public in different parts of the country very conveniently through radio broadcasts. In India advertisements are broadcast by the All India Radio (Vividh Bharti Programme) in specified channels. As a mass medium, radio broadcasting is well suited for various consumer goods having a mass appeal such as movies, electric fans, refrigerators, sewing machines, leather goods, travelling bags, etc. The advantage of radio advertising is that, being an audio medium, it does not require education to receive the message. The listeners need not be literates. Besides, the message which is orally communicated may be more impressive than the message in print. The limitations of radio advertising are: 1) it is more expensive than press advertising, 2) the life of the advertisement is very short and 3) it is difficult to remember the message in detail.

Television as a medium of mass communication has significantly increased in India over the last years. But its importance as a medium of advertising has grown with the use of satellite transmission and establishment of more relay stations to cover the remote parts of the country. Individuals who cannot afford to buy TV sets are able to watch TV programmes in community centres and public places. Use of television for advertising is increasing in recent times due to its extensive coverage and the impact of visual communication on the viewers. Its combination of sound, vision and movement permits the use of advertisement to demonstrate the product and its advantages. For this reason this medium is more effective than the press and radio. The major limitation of this medium is the heavy cost of advertising particularly for advertisement before or after popular programme, known as prime time. Hence, only the large enterprises are in a position to make use of this medium. Another limitation is that the duration of a commercial advertisement is only for a few seconds. Also viewers often find it difficult to assimilate a large number of advertisements within a short span of time.

Direct Media

Direct response advertising is a type of interactive promotion that solicits a direct response from the prospect (target audience) without intervention of a third party. It is a two way communication between the advertiser and the target audience. **Direct Advertising Media** are the channels through which advertisers communicate directly with the target audience. Major direct media are direct mail and advertising specialities.

Direct Mail: Sending personalised letters by post to the prospective customers is a method of advertising which often pays. These communications are mostly in the form of circulars and sometimes accompanied by catalogues or price lists. The idea behind mailing circular letters is to approach the customers directly with the advertising message and

to arouse his interest in the product or service with detailed explanation in a convincing manner. A mailing list is thus prepared and the letter is carefully drafted with personalised wordings.

The message having a personal touch is expected to be more effective. The information may be elaborated and hence likely to be more convincing. Addressed to individuals by name, the message can draw the attention of the customer without distraction from competing advertising.

Direct mail cannot be a suitable medium for advertising products meant for public use on a mass-scale. It is best suited for products where the people to be contacted can be only identified. For example, a company manufacturing or distributing Pharmaceutical products (medicines) may easily identify the doctors or chemists for direct communication of information relating to the products. Similarly, a book publishing company may conveniently identify university teachers and send circular letters to promote the sale of its publications. But, for promoting the sale of (say) toilet soap or wrist watches, or pen direct mail is not a suitable means of advertising. It would be expensive and time consuming to undertake direct mailing of circular letters to innumerable consumers of such products who are widely scattered. Booklets, pamphlets catalogues, etc, sent by post to prospective customers also come under direct mail. These are also suitable only in the case of a selective group of customers.

Advertising specialties: These are free gifts like diaries, key-rings, purses, paper weights, pens, calendars, T-shirts, etc., imprinted with a message along with the advertiser's name and address. Since they bear the name of the advertiser, they serve as reminders. This medium gives a personal touch. But this is expensive to implement on large scale.

There are some other direct media like directory advertising and sponsored magazines. **Directory advertising** includes advertising in Yellow Pages in telephone directory and Specific Trade or Association directories. In the case of **Corporation sponsored magazines**, the advertiser owns the magazine. For example, Air India and Indian Airlines both have their own inflight magazines for passengers. Similarly, many hotels publish their own magazines for circulation to a specialised group guests.

Outdoor Media

Outdoor media of advertising refers to the media used to reach people when they are out of doors or travelling rather than at home or in the office. **Pamphlets, posters, hoardings (bill boards), neon signs, and electric displays come under the category of media.**

Pamphlets (printed handbills) are quite often used as a medium of advertising for sales promotion in a local area. Pamphlets are distributed among passers by at street crossings, railway stations or bus terminals, roadside market places, etc. Posters (message printed on paper) are generally fixed on walls,

roadside pillars, lamp posts. **Posters** are also fixed inside public transport vehicles like trams, buses and railway coaches. In these cases space is provided on payment. **Neon signs and electric displays** are usually installed on roof tops or busy street crossings so as to draw the attention of people. These are visible only in the night. **Hoardings (bill boards)** refer to large boards carrying the message, sometimes with life size pictures, and installed at public places. Hoardings are specially designed to draw the attentions of the public. As the size of the hoardings is normally large, advertisement is visible from a distance.

Outdoor media like pamphlets, posters, neon signs, electric displays and hoardings have different degrees of attention value. Pamphlets have temporary impact on the people who receive them when they are passing by and often have other matters in their mind. Posters have the disadvantage that only those who look at them may notice their existence. Besides, posters in public places are likely to have a short existence either due to superimposition of other posters or their removal by other postering agents. Neon signs and electrical displays normally attract more public attention but these are effective only during the night time. Hoardings have the maximum attention value due to the big size and installation at prominent locations.

The cost of hoardings is quite high due to the heavy initial expenditure required for its preparation and installation. The rent to be paid for locating it at a public place is also quite high. Neon signs and electric displays involve fairly high initial costs for preparation and installation. It also involves considerable recurring expenditure for use of neon gas or electrical energy besides rent to be paid for location at public places. Posters fixed on walls or pillars may be initially less expensive. Posters fixed on the space provided in public transport (buses and railway coaches) involve payment of periodic charges. However all outdoor media are by and large less expensive than radio and television advertising.

Apart from the media discussed above, there are several other types of media used for outdoor advertising. Some such media are **slide projection in cinema houses, films, exhibitions, display in show-cases, etc.** **Projection of slides** in the cinema theatre before and during the film show is one of the cheaper means of advertising. Projection of short-films before the commencement of feature film is a relatively more expensive medium of advertising. But it has the advantages similar to that of television advertising. Moreover these short films are usually of longer duration about 5 minutes than TV commercials. However, slides or films are viewed only by local people present in the theatre during the show time.

Exhibitions also provide opportunities for advertising goods. Consumer good can be displayed and the use of industrial goods like machinery, can be demonstrated in the exhibition. The limitation of exhibitions is that their duration is restricted to a specified period.

Show-cases displaying goods are located in public places like railway stations, airports, attract the attention of the public. Rent is payable for the space. Attractiveness of the products and the manner they are displayed are the main features of this advertising medium.

16.6.2 Evaluation of Media

One of the most critical questions facing an advertiser is the choice of media. In other words he would like to determine which medium or media would be ideal for his purpose. Broadly speaking the ideal medium should have the following characteristics: 1) The medium should be able to **reach** the largest possible number of the target audience. 2) It should be possible to convey the message adequately through the medium. 3) The medium must be **economical**. 4) It should provide **flexibility** of size, design, layout, colour, etc. 5) The media should provide adequate **scope for repeating** the message, if necessary at frequent intervals. 6) the use of the medium should result in **achieving the goal** of sales promotion.

Now the question is which can be regarded as the best medium. As a matter of fact, no single medium can be considered suitable in all situations. For this, let us evaluate each media in the light of the characteristics of an ideal medium Look at Table 16.1 for comparative study of various media.

Table 16.1: Features of Advertising Media

	Newspaper	Magazine	Radio	Television	Outdoor	Direct Media
Circulation or reach	Maximum circulation among educated people	Restricted circulation among educated people	Reaches large number of people	Viewers are less than the listeners of radio	Mostly by local people	Limited to the members on the mailing list
Duration of attention	Very short period of one or two hours.	Extended over a week or more	For a few seconds	For a few seconds	Brief attention, uncertain	Brief attention, certain
Cost	Variable according to space	Less expensive than newspaper	More expensive than newspapers & magazines	More Expensive	Less expensive than newspapers except for bill boards	Moderately expensive, Depend on the size of mailing list.

Flexibility of size design, etc.	Highly flexible	Less flexible than newspapers	Restricted flexibility depending on available time	Restricted flexibility due to high cost & depending on available time	Moderately flexible depending on cost	Highly flexible
Suitability	Goods for mass consumption	Industrial and specialised goods	Goods for Mass consumption	Mass consumption goods	Goods with brand names	Goods having well defined markets
Degree of audience selectivity	Possible for regional and linguistic selectivity	Greater degree of selectivity	Limited possible for regional and linguistic selectivity	Limited possible for regional linguistic selectivity	Regional selectivity	Greater degree of selectivity
Repetitive value	Possible to repeat every day	Restricted to frequency of publication	Quick repetition possible	Quick repetition possible	Seen every time the prospect passed by it	Depends on frequency of mailing

If you analyse the table carefully, you will realise that no single medium is having all the requisites of an ideal medium. Each medium is ideal in some aspects and not ideal in others.

For instance, newspaper and magazines have wide circulation, flexibility, scope for audience selectivity, etc., but they are not suitable for communicating to illiterate people. Television is a visual media which is very effective, but it is the most expensive medium. Radio does not have visual impact. Outdoor media suits local advertising only. Direct mail is not suitable when the prospective customers are very large. Thus a particular medium may be suitable in one situation but not suitable in other. Hence, you have to be careful in the selection of the medium and make your choice to the requirements of a given situation.

16.6.3 Media Selection

Choosing advertising media is known as "matching media to markets". Some important factors which affect media choice are explained below:

- 1) **Elements of the marketing mix:** McCarthy gave a four factors classification of the marketing mix viz; Product, Price, Place, Promotion. Each one of these elements have an impact on media choice.

- i) **Product:** If the product is technical and complex, it will require a long Copy (a detailed explanation of the features, etc.). Thus, print media would be most suitable. Products like automobile tyres which require dramatization, TV might be the most effective medium. For women's dresses, colour magazines might be better.
- ii) **Price:** Very often price of a product has a direct relationship with its quality. The higher the price, the better the quality. Therefore, a high priced product should be advertised in prestigious magazines or TV to match the high quality perception in the mind of the consumer.
- iii) **Place:** Refers to the channels of distribution. This affects media selection in two ways: (1) geographical coverage, and (2) timing. If the product is being distributed in a few selected channels in one region of the country, using national magazines or network TV would be wasteful. Timing is also very crucial. For example, a product has already reached the retailers, but the advertisement is scheduled in a magazine which is due to be released after a month. This will not produce the desired results.
- iv) **Promotion:** Relates to the elements of the promotion mix: advertising, personal, selling, sales promotion and publicity. The types of media chosen will depend on the emphasis given to each of the above four elements. In industrial selling the role of personal selling is dominant; hence advertising is done very selectively—that is in trade journals or technical magazines.

2) **Media Characteristics:** The important elements are:

- i) **Audience selectivity:** It refers to the medium's relative ability to reach an audience whose members are alike in ways that are important to an advertiser. For example, a company making shorts, T-shirts and sports shoes, for sports persons, in the age group of 18-30, is more likely to find readers of "Sportstar" and other sporting magazines, falling in this category.
- iii) **Geographic selectivity:** It refers to the medium's ability to reach people in selected geographical areas. Bill boards and outdoor displays enable the advertiser to focus on neighbourhoods where target audiences are located.
- iv) **Reach:** It refers to the number of persons or households exposed to an advertising medium (or message) at least once during a given time period. Reach is often confused with circulation, which refers to the number of copies of the publication sold (print media). It is quite possible to have a circulation of one (one newspaper in a single household) but a reach of five (five adult members of the target audience being exposed to the medium). The equivalent of reach in broadcast media is called audience.

- iv) **Frequency:** Refers to the number of times that an average person or household is exposed to a message within a given time period. When image reinforcement is desired by the advertiser, higher frequency is used.
 - v) **Media scheduling:** Refers to the timing of message deliveries. This simply means finding out the best time to advertise. Should advertising be steady throughout the year or be concentrated at certain time periods? A decision on this depends upon factors like, seasonality, repurchase cycle, competitive activity and the advertising budget.
 - vi) **Media Cost:** The advertiser would like to find out what it would cost him to reach the target audience. For broadcast media the cost is by time (e.g., 10 second slots on TV), for newspapers the rate used is column centimeter (col.. cm.)-the cost of 1 column width \times 1 cm depth of space. For magazines the (Cost per thousand) rate is used.
- 3) **Target Audience:** The advertiser must very clearly identify the group for whom the advertisement is meant. The factors used are age, sex, habits, life styles, personality, incomes, geographical location, etc. By building up a target audience profile, it is easier for the advertiser to match his medium to the market.
 - 4) **Nature of the message:** The preferred media should be compatible with the advertising message. For example floor covering and clothing are best presented in pictorial form. Radio will not be good medium for this. Life insurance calls for a lengthy message, hence outdoor advertising will not be appropriate.
 - 5) **Advertising budget:** It refers to the total funds available with the company for advertising. This would certainly have an impact on the type/s of media which can be selected within the given budget.

Check Your Progress C

- 1) List out the broad media types you are familiar with, and specify the classes of media within each broad type of medium.
- 2) What are the factors that determine the choice of media?
- 3) State whether the following statements are **True** or **False**.
 - i) Media selection is the problem of finding the most cost effective media to deliver the desired number of exposures to the target audience.
 - ii) Reach is usually more critical than frequency for a complex product or for creating a brand image.

- iii) Mass coverage, high geographic selectivity and low cost are all advantages of radio.
- iv) Media scheduling depends upon factors such as quality of the medium, the number of people in the target audience, nature of the product and nature of the message.
- v) Pamphlets and Posters are examples of outdoor media.

16.7 PUBLICITY

You have learnt that the promotion mix comprises four components viz., advertising, sales promotion, personal selling and publicity. You have studied about the three components other than publicity. Now let us study about publicity.

16.7.1 What is Publicity?

It is the non-personal stimulation of demand for a product, service or business unit by planting commercially significant news about it in a published medium or obtaining favourable presentation of it upon radio, television or stage that is not paid by the sponsor.

Salient features of the definition are as follows:

- 1) **Non-personal/mass media:** Like advertising, publicity also reaches a very large number of people at the same time (hence non-personal) through mass media such as newspapers, magazines, radio, TV, etc.
- 2) **Commercially significant news:** This is one of the features that distinguishes publicity from advertising. When information about a product or company is considered newsworthy, mass media tend to communicate that information free of cost. Since most publicity appears in the form of news items or articles originating from the media, rather than the advertiser, it has higher credibility (believability).
- 3) **No Sponsor:** Since the information originates from the media, there is no sponsor, that means the messages are unsigned. This is another point of difference between advertising and publicity.
- 4) **Not Paid for:** Since publicity is not identified by a sponsor and the information is not disseminated at his behest, he does not pay for it. This is the third feature that differentiates publicity from advertising.
- 5) **Purpose (demand stimulation):** In some situations, where publicity is properly planned, it may lead to the creation or reinforcement of a favourable impression about the company and its products in the minds of people receiving the message. This may lead to a favourable attitude towards the product or company and leading to increased demand for the product.

For example, good reviews in various media about 1) International Boxing Championships sponsored by MRF Ltd., 2) Reliance Cup Cricket tournament sponsored by Reliance Industries and 3) ITC Sangeet Sammelan sponsored by ITC Ltd., resulted in enhancing the images of these organisations in the minds of people.

Negative publicity can damage the company's or product's image, resulting in reduced demand for the product. For instance, a great deal of adverse publicity was generated when different media condemned the following companies through articles and editorials: 1) Union Carbide for their negligence in the Bhopal gas tragedy. As a result, the Government stopped buying Union Carbide products for some time. 2) Jains Shudh Vanaspati, for using beef tallow in their product. Consumers stopped buying the product. 3) Recurring air crashes of Douglas McDonnell aircraft led to the grounding of these aircraft in many airlines.

16.7.2 Difference Between Publicity and Advertising

The main points of difference are indicated in Table 16.2. A careful reading of the table will help you to distinguish between the two types of promotion.

Table 16.2: Difference between Advertising and Publicity

Factors	Advertising	Publicity
1) Payment	The sponsoring organisation has to pay for media space and/or time.	Since the message is designed and printed by media, the company does not have to pay for it.
2) Sponsor	Has a clearly identified sponsor which may be either the company or brand name.	No sponsor is identified. The message originates from the media sources.
3) Content	The company has total control over content and coverage of the message.	The Company has no control over content and coverage, although it may have initiated media interest and supplied the necessary information.

4) Schedule	The Company can schedule repetition of the message as many times as desired.	The Company cannot schedule repetition of messages.
5) Intent	The message is meant to create, maintain and enhance a favourable impression information about the company and the product.	Presented as news is hence, less persuasive. May create a favourable or unfavourable impression.
6) Credibility	Low to moderate	High

Publicity is quite similar to advertising except that it involves an unsigned and unpaid message even though it may use the same mass media as advertising does.

16.7.3 Advantages and Limitations

Advantages

Publicity offers several advantages as a promotional tool:

- 1) It may reach people who do not ordinarily pay any attention to advertising, sales promotion or salespeople.
- 2) It has greater credibility than advertising because it appears in the context of editorials or articles.
- 3) It is relatively very inexpensive and provides coverage that would cost lakhs of rupees.
- 4) It can build up interest in a product category. Some companies and trade associations have used publicity and PR to rebuild interest in commodities like “eggs” and “milk”.

Limitations

- 1) Advertisers have very little control over what media editors do with the publicity material that advertisers prepare.
- 2) Media people disregard material that they do not consider newsworthy — subject matter that is untimely, uninteresting or not accurate.
- 3) Even if the material is found newsworthy, the advertiser has no control over how media people edit the content or schedule the appearance etc.

16.7.4 Generating Publicity

A large industrial group announcing the planned construction of a Medical Research Institute or a Post Graduate Institute of Management Studies is likely to be contacted by newspapers and television for information. This event has a high interest value and news angle. Similarly, companies like Reliance, who sponsored the World Cup Cricket, MRF who sponsored World Cup Boxing and ITC which every year sponsors ITC Sangeet Sammelan, generate publicity through sporting and social events. Thus, there are so many ways to generate publicity. Some major tools of publicity are as follows:

- 1) **News Release:** It is usually a single typed page, which contains information about the organisation released to the press. News generation requires skill in developing a story concept. The advertiser needs to cultivate as many editors and reporters as possible.
- 2) **Feature Articles:** These are longer and prepared for specific publications, such as the ones that appear in Economic Times and other business publications. These generally relate to the company's past achievements, expansion and diversification plans.
- 3) **Press Conference:** Media representatives are invited for press conferences to hear about major forthcoming events of the company. They are then handed over written material, photographs, etc., relating to that event.
- 4) **Letters to the Editor:** Letters are sent to newspapers and magazines, perhaps in response to articles appearing in those media.
- 5) **Audio Visual Material:** Audio visual material such as films, slides, video and audio cassettes are sent to TV and Radio Stations for broadcasting.

Check Your Progress D

- 1) Refer to Table 16.1 and specify in what ways is advertising (i) similar to and(ii) different from publicity.
- 2) Given here under are four situations. Which of these can be classified as advertisements or publicity or neither?
 - i) A customer visits a TV dealer's showroom, The dealer explains the benefits of Brand X over Brand Y.
 - ii) Sales Executive of a leading 5 Star hotel visits the General Manager of a large travel agency and talks about the wide range of services offered by the hotel.

**ssop turns corner
with Rs 1.3-cr profit**

Our New Dental Surgery
now open in partnership

Group and Company Limited which has been making heavy losses for decades, has finally withdrawn a turnaround with a record profit of Rs 1.3 crore in 1988-89.

The turnaround has come about thanks to production restructuring, diversification into the producing of longwall equipment and construction machinery and a reduction in the work hours after the successful implementation of the Voluntary Retirement Scheme (VRS).

The implementation of VRS has, over a period of four years, reduced the number of employees in the 200-year-old unit by 2,000, almost a fifth of the total work force of the unit. This is believed to have reduced expenditures on wages and salaries. Incept and Company Limited is a subsidiary of the Bharat Bhari Cotton Mills.

The public sector unit had a remarkable loss of Rs 69 crore in 1980-87. In 1987-88, the losses fell to Rs. 17 crore on account of financial restructuring. But the unit continued making losses, till 1989-90 when it finally registered

Another public sector sick unit which has benefited by the company's treatment scheme is B&B

uniform and Crutcher. As many as 4,000 employees have taken advantage of the scheme, as a result of which the company's losses, although still high, have come down heavily in the past few years.

In other publicly sector unions, the voluntary retirement scheme has shown mixed results. For instance, in Minduman Cables Limited and in Andrew and Tait the scheme has not been successful. Sources say that in the past three or four years, not more than 20 persons in each of the companies have availed of the scheme.

UCC theory on Bhopal gas disaster discounted

D. B. Henderson

DR. HIRSH CHANDRA and **MR. Srinivasan** have succeeded in discounting the theory propounded by the Union Carbide Corporation that MIC resulted from the victims of the Bhopal gas disaster did not cross the lung barrier.

A study done by them had established the presence of MOC Trimer and other similar peaks of the tank residue in the bloodstreams of the victims.

These findings were based on the research conducted by two scientists along with their associates at the Medicine-Legal Institute, Bogotá, and the Institute of Forensic Medicine, Council of

The findings of this research are being published by *Medicine, Science and the Law*, the official journal of British academics.

The authors of the paper say: "We decided to trace the events from the results, that is, views from dead bodies and analysis of such residues." They reportedly fixate at minus 70 degrees Celsius to analyze them better.

Thirty blood samples were selected at random for a retrospective analysis from autopsies and post mortems conducted in the month of December 1984 after the leakage of the killer gas.

Autopsy samples were collected only from the bodies received by the medico-legal institution. These samples are under preservation in deep freeze maintained from minus 20 down to minus 70 degrees Celsius.

The presence of MLC Trimer and other similar peaks of tank residue in the bloodstream of victims indicate definite evidence of the entry of a mixture of gases and

particles into the body system, contrary to the statements of the manufacturer of MFC.

Fourteen out of the 24 autopsies performed showed MOC Trimer peak in extracts of blood. This is one of the constituents of the aerosol and is also located in the milk residue, thereby proving that the trimer has passed the lung barrier. This finding gives a new dimension to the entire controversy.

Right from the beginning, after the disaster the medical community attending the gas-affected victims, have been confused about the interpretation of the observed toxicology of deaths due to lack of knowledge about the exact chemical composition of the stored material and hence of the poison cloud that descended on the residents of Bhopal.

No clear-cut treatment and management was available at post-

lated by the Union Carbide Corporation. There is very little information available in scientific literature about the chemical and biological properties of the initial

A few people have argued that it was only MJC that spurred during the leak through the safety valve from the Union Carbide India Ltd. Looking into this aspect of the event, with such mortality and morbidity, where clear-cut identity of poisoning was not possible, the sources, the spot and the response have to be looked into with great interest.

There is no gas known so far which could in the open space kill so many people and make many more morbid. Many other doubts and questions which have remained unanswered are: (1) Why so many people died with a nasal, oral, cutaneously, mucous-

and moved against all norms and when it was never indicated that it could be as dangerous to the world?

(2) What was the composition of the internal? (3) What were the reactions that took place on the

Union Carbide never provided answers to these questions. Moreover, they tried to confuse the opinion about the treatment. Of the gas victims, it is clear that Union Carbide never formulated the antidote for the gas whose contents were not known and were not made known.

The present study will help in drawing new light on the issue. So far the experts of Union Carbide and other experts have claimed that the material inhaled by the victims of the Bhopal gas disaster will never cross the lung barrier.

Advertising is the paid form of non-personal communication from an identified sponsor using mass media to persuade or influence an audience.

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objectives, such as: 1) announce a new product, 2) expand the market to new buyers, 3) announce product modifications, 4) make a special offer, 5) announce location of stockists and dealers, 6) educate customers, 7) remind users, 8) please stockists, and 9) create brand preference. One of the major objectives of advertising is to change the attitude of a person in a way that moves him closer to the product being advertised. It is important for the advertiser to know how to move people to a higher state of readiness to buy along the Hierarchy of Effects.

Advertising has become an important factor in achieving social objectives, such as family planning, better health, prohibition of drinking etc. Advertising performs an informative and educative task. But there are many objections to advertising. It is said that advertising increases prices, insults consumer intelligence, is a source of discontent, tends to be monopolistic, and multiplies needs and wants of people.

Advertising can be seen as a five party business consisting of 1) advertisers, 2) advertising agencies, 3) support organisations, 4) media, and 5) consumers. A medium in advertising refers to the channel or vehicle for carrying the advertiser's message to his target audience. The four broad types of media are: 1) print media (newspapers and magazines), 2) broadcast media (radio and TV), 3) direct media (advertising specialties, directories, corporation sponsored magazines, direct mail, etc.), and 5) outdoor media (hoardings, bill boards, etc.). Final media choice depends upon factors such as: 1) elements of the marketing mix, 2) media characteristics, 3) target audience, 4) message, and 5) advertising budget.

Publicity is the news carried in mass media about an organisation and its products, policies, personnel or actions, it can originate with the media or the advertiser and is published or aired at no charge to the organisation for media space or time. Publicity is quite similar to advertising except that it involves an unsigned and unpaid message, even though it uses the same mass media as advertising. Some of the major tools used in publicity are: news release, feature articles, press conference, letters to the editor, and audio visual material.

16.9 KEY WORDS

Audience Selectivity: A medium's relative ability to reach an audience whose members are alike.

Advertising Media: Refers to channels of communication or vehicles for carrying the advertiser's message to the target audience.

Broadcast Media: Consists of media such as radio and television, where messages are sent through Carrier Waves.

Direct Advertising Media: Channels through which advertisers communicate directly with the target audience.

Frequency: The number of times a member of the target audience is exposed to a message within a given time period.

Geographic Selectivity: The medium's relative ability to reach people in selected geographical areas.

Reach: The number of individuals or households exposed to a given medium (message) at least once during a given time period.

Target Audiences: All the people for whom the advertising message is meant. It includes both present and potential customers.

6.10 ANSWERS TO CHECK YOUR PROGRESS

- A 3. i) *Type of Medium* : *Magazine*
 ii) Type of Communication : Non personal
 iii) Sponsor : HOTLINE (Fusebase Eltoro Ltd.)
 iv) Payment : Since it is sponsored, it is paid for.
 v) Product : Video Projector.

The message has all the requirements of an advertisement.

B 4 i) False ii) True iii) False iv) True v) True

C 3 i) True ii) True iii) False iv) False v) True

D 2 i) This is neither advertising nor publicity because the communication is one-to-one (i.e. personal) and there is no mass media.

ii) Once again this is a one-to-one personal selling situation, hence it is neither advertising nor publicity.

iii) This is a case of sales promotion. It is neither advertising nor publicity.

iv) Since a non-personal, unsigned message is communicated voluntarily by the media (no payment involved); it is publicity (negative, because it refutes the advertiser's claim).

D 4) Box I is an example of positive publicity, because the report speaks favourably about Jessop and Company and how did it manage to turn around from losses.

Box II is an example of negative publicity, because it negates the theory propounded by UCC.

16.11 TERMINAL QUESTIONS

- 1) "Advertising is Wasteful." Do you agree? Justify your answer.
- 2) What is advertising? How is it different from publicity?
- 3) 'No single medium is ideal in all respects.' Discuss.

- 4) Explain the various media of advertising and compare their merits and limitations.
- 5) Explain the factors that determine the choice of media in advertising:
- 6) What is publicity? Explain various tools of publicity.
- 7) How do you differentiate publicity from advertising? Explain the advantages and limitations of publicity.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

SOME USEFUL BOOKS

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BLOCK

6

SERVICES MARKETING AND EMERGING ISSUES

UNIT 17

Services Marketing

UNIT 18

Rural Marketing

UNIT 19

Emerging Issues in Marketing-I

UNIT 20

Emerging Issues in Marketing-II

UNIT 17 SERVICES MARKETING

Structure

- 17.0 Objectives
- 17.1 Introduction
- 17.2 What are Services?
- 17.3 Difference between Products and Services
- 17.4 Interdependence of Products and Services
- 17.5 Services Classification
- 17.6 Marketing of Services
 - 17.6.1 The Services Marketing Mix
 - 17.6.2 Marketing Strategies for Service Firms
 - 17.6.3 Challenges in Marketing of Services
- 17.7 Product-Support Services
- 17.8 Let us Sum Up
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- 17.10 Answers to Check Your Progress
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17.0 Objectives

After going through this unit; you shall be able to:

- explain the unique features of services and their classification;
- describe the scope of services;
- establish the difference between product and service and how are they independent of each other;
- explain the challenges involved in marketing of services;
- state the concept of services marketing mix;
- comprehend the need of and usage of product support services; and
- elaborate various strategies adopted by firms offering services.

17.1 INTRODUCTION

What do you mean by services? Are they the offerings in the market and if they are why are they given so much of importance? Why it has emerged as a separate subject. The importance of services sector in the economy of almost all the developed and developing countries has been increasing. If we see the economic history of all the nations, we can say that most of the developing

nations have seen transition from agriculture to industry to the services sector. The sector has emerged as the most important contributor to their respective economies. Considering the increasing importance of services sector, it becomes very important to explore the services sector and elaborate the uniqueness of the marketing strategies of services. In this unit, you will learn about the meaning and scope of services, how are they different from products and the interdependence between product and service, their classification and marketing strategies of services.

17.2 WHAT ARE SERVICES?

Whenever we think of marketing or talk of marketing people generally think of tangible goods i.e., products. This is the general perception. It is important to keep in mind that marketing is done for both tangible as well as intangible goods. The marketing of intangible goods (services) are much more complex than that of tangible goods. Let us first understand the meaning of services, and their peculiar characteristics.

It should be remembered that marketing concepts and techniques are equally applicable to services with relevant adaptations in certain decision areas. Any market offering that is intangible is called services. **The services are separately identifiable, essentially intangible activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or another service.** For example, hospitals, hotels, universities, banks, insurance companies, transport firms, fire departments, police and post office.

To put it in simple terms, a product is an object, a device, a tangible thing; and a service is a deed, a performance, an effort. This captures the essence of the difference between products and services. Services are a series of deeds, processes and performances; hence tend to be more intangible, personalized, and custom-made than products. For instance, the services offered by Urban Clap, SBI, Tata consultancy services (TCS), Infosys, HCL technologies, IGNOU, IRCTC and MTNL are intangible deeds and performances. Similarly, the core offerings of hospitals, hotels, and utilities comprise primarily deeds and actions performed for customers.

Services are produced not only by service businesses such as those listed above, but are also integral to the offerings of many goods. For example, care manufacturers offer warranties and servicing contracts, and industrial equipment producers offer maintenance services. White goods manufacturers provide after-sales services. Even producers of items such as medicines and food items offer services to the consumers in the form of educating them through pamphlets as to how to use and maintain the item. These are examples of deeds, processes and performances associated with product offerings.

On the basis of the broad definitions given above services may include **all economic activities whose output is not a physical product, is generally consumed at the time it is produced, and provides added value in forms (such as convenience, amusement, timeliness, comfort or health) that are essentially intangible concerns of its first purchaser.** This definition has been used also to delineate the service sector of the economy.

It should be remembered that marketing ideas and practices are equally applicable to services with slight adaptations in certain decisional areas. Services in content are different from products.

Courts offer a service. So are hospitals, the fire department, the police and the post office. These are not products in the normal sense and yet it is very important for each of these institutions to have an appropriate image. The police are often criticized; the fire department is generally praised; the post office are criticized for delays; the hospitals perhaps are criticized for negligence and exorbitant rates and so on. It is obvious that controlling the quality of services is important for building up its image.

Apart from government or public sector undertakings, there are 'non-profit' organizations such as museums and charities. Although being non-profit, they also have to provide the best form of service for their popularity. The business and commercial sectors, which include airlines, banks, hotels, and insurance companies, and the professionals such as chartered accountants, management consulting firms, medical practitioners etc., also need marketing.

Details of industries classified within the service sector, is discussed below for understanding of the broad spectrum of the services sector.

Transportation and Public Utilities

- Transportation (Railroad transportation, Local and inter-urban passenger transit, warehousing, Water transportation, Air transportation, Pipelines gas, and other Transportation services)
- Communication (Telephone and telegraph, Radio and television broadcasting)
- Electric gas and sanitary services
- **Wholesale Trade**
- **Retail Trade**
- **Finance, Insurance, and Real Estate**
- Banking
- Credit agencies other than banks
- Security and commodity brokers, and services
- Real estate

Holding and other Investment

Other Services

- Hotels and other lodging places
- Personal services Business services
- Auto repair, services and garages
- Miscellaneous repair services
- Motion pictures
- Amusement and recreation services
- Health services
- Legal services
- Education services
- Social services and membership organizations
- Miscellaneous professional services
- Private household services

Federal Government

- Civilian
- Military

Government Enterprises

State and Local Government

- Education
- Other services

Source: Valarie A. Zeithaml and Mary Jo Bitner, Services Marketing, McGraw Hill, New York.

The above is not a very exhaustive listing, this will provide you a clear idea about services encompass a wide range of activities.

Characteristics of Services

Based on the above discussion, we can identify four basic characteristics of services that differentiate them from products. They are: (1) intangibility, (2) heterogeneity, (3) simultaneous production and consumption, and (4) perishability. Let us discuss them in detail.

Intangibility

The basic difference between goods and services is intangibility. Services are performances or actions rather than objects. Therefore, they cannot be seen, felt, tasted, or touched in the same manner that we can sense tangible goods.

The absence of tangible features that it is difficult for the seller to demonstrate or display services. Similarly, it is also difficult for buyers to sample, test or make a thorough evaluation before buying them. For example, health care services actions are surgery, diagnosis, examination, and treatment performed by doctors and directed towards patients. One cannot see or touch these services, although you may be able to see and touch certain tangible components of them like equipment, hospital room. In fact, services such as health care are not easy for the consumer to grasp even mentally. Even after a diagnosis or surgery has been completed, the patient may not fully comprehend the services performed. Moreover, he/she feels about the surgery performed by the doctors.

Heterogeneity

It is often impossible to assure homogeneity and consistency in service provided by a seller, because services are performances rendered by them. Hence no two services may be precisely alike. The service is performed and delivered by employees (people), and people differ in their performance. Heterogeneity also results because, two customers may not be precisely alike. Each will have unique demands or experience and may require the service in a unique way. For instance, take the case of a restaurant which is a hospitality service. One customer may prefer a crisp Masala Dosa with sambhar while another prefer soft Masala Dosa with coconut chutney. The cook has to prepare and serve according to their tastes. The heterogeneity connected with services is largely the result of interaction between employees and customers.

Simultaneous Production and Consumption

Most goods are produced first, then sold and consumed while services are sold first and then produced and consumed simultaneously. For example, an automobile may be manufactured in Mumbai, shipped to Delhi, sold two months later, and used over a period of years. But restaurant services cannot be provided until they have been sold and the dining experience is essentially produced and consumed at the same time. Similarly, in travel services, the ticket has to be bought first and then the travel service has to be availed of. Very often, the customer is present while a service is being produced thus the views of the customer are taken into account in the production process. For example, in the restaurant when one orders for a cup of coffee, he ask for strong coffee (more coffee, less milk) without sugar. Here the customer has influenced the process of coffee. Frequently, customers interact with one another during the service production process and thus effect one another's experiences. For example, strangers seated next to each other in an airplane may well affect the nature of the services experience for each other. Another outcome of simultaneous production and consumption is that service producers themselves playing as a part of the product itself and as an essential ingredient in the service experience for the consumer.

Perishability

Perishability refers to the fact that services cannot be saved or resold or returned. A seat on an airplane or in a restaurant, an hour of a lawyer's or telephone line capacity used cannot be reclaimed and used or resold at a later time. This is in contrast to goods that can be stored or resold another day, or even if the consumer is unhappy. It is not easy to reset a bad haircut nor is it possible to transfer it to another consumer. Perishability makes this an unlikely possibility for most of the services.

17.3 DIFFERENCE BETWEEN PRODUCT AND SERVICES

As we have discussed earlier, the basic difference between the products and services lies in their characteristics. Products are tangible. They have a physical shape and form therefore they can be seen, touched, felt whereas, service are just the opposite, they cannot be touched, felt or seen. Products are homogeneous, say for example, all the body soaps bought from anywhere in the world would be same, whereas the services are heterogeneous. If Mr. X go to a doctor for a particular illness and he is given the treatment and medication. The same treatment and medication will not be given to another patient. Product bought can be returned or resold. On the other hand services are perishable. They cannot be returned, resold or stocked. There is no transfer of ownership of the market offering in case of services as they are intangible, but in case of products, ownership is transferred to the buyers as soon as they purchase the commodity from the seller. Hence, there is an element of separability in case of products, whereas, in case of services they are not separable from the producer/ service provider. Although a Chartered accountant has given the consultancy services to his clients, the clients cannot separate the services from him.

In case of Products, they are first produced and then offered in the market. After buying, the consumer can consume it. Whereas, in case of service, the process is different. Consumer of services first buy those services and then they consume it. For instance, you call a hair stylist from Urbanclap, you pay for her services first and then get the services. In case of services, the production and consumption are simultaneous unlike the products. Services are heterogeneous in nature thus can be highly customized and individualized. Service provider can render services according to the specific need of every consumer. Whereas, in case of products, they cannot be totally individualized or customized. It can be done for a segment of customers.

Most importantly, in case of services, a producer cannot really take advantage of the sudden increase in its demand. Production of services cannot be increased according to the changing demand pattern. For example, in the situation like current pandemic situation, the healthcare facilities could not be increased according to the rising need to the patients. Hospital premises could

be increased, utilities could be increased up to certain extent but there could not be sudden increase in specialized healthcare service providers or staff such as doctors, nurses, ward boys etc. As a result of the differences between products and services and because of peculiar characteristics of services, marketers find it challenging to market the services. You will further learn in detail about the challenges in marketing of services in section 17.6.3.

Table 17.1: Difference between Products and Services at a glance

Bases	Products	Services
Tangibility	Tangible, can be touched seen and felt.	Intangible, hence cannot be touched seen and felt.
Heterogeneity	Homogeneous in nature and they are standardized.	Heterogeneous in nature.
Seperabilityof market offerings	After purchase the products are separated from the producer and ownership is transferred from seller to the buyer.	Cannot be separated from service provider or producer.
Perishability	Not perishable, can be stored.	Perishable, hence cannot be stocked or stored.
Resale/return	Resold or returned as they are not perishable.	Cannot be resold or returned as the moment it is consumed, its utility is destroyed.
Customisation	Customisation is limited.	Highly customized or individualized as they can be delivered as per the specific requirement of the individual customer.
Evaluation of its want satisfying ability	Can be easily evaluated.	Evaluation is complicated here.

17.4 INTERDEPENDENCE OF PRODUCTS AND SERVICES

Though, the products differ from services in many respects, there are so many inter-linkages between services and products in several instances. In fact, services and products complement each other in many cases. Sales prospects of products that are in need of substantial technological support and

maintenance will be badly affected if proper arrangement for service is not made. For this reason, the initial contract of sale of a product often includes a service clause. This practice is common in the case of many durable goods. In the case of TV s, cars, refrigerators, washing machines, etc., manufacturers provide free after sale service for a certain period. Similarly, the sale of computer hardware is critically linked to availability of proper servicing and software. Sellers of capital equipment often enter into maintenance contracts with buyers. These are some instances of services complementing products. Similarly, products also complement services. For example, an airline cannot exist without airplanes. Without rooms, furniture and kitchen equipment, a hotel cannot provide hospitality service. In the same way, hospitals (health care service) cannot provide services without using tangible products such as operation instruments, testing equipment, medicines, hospital buildings, etc.

There is an increasing recognition of this complementary nature of services and products. Manufacturing based industries (such as automobiles and computers) are recognizing the role of service in improving the competitiveness of a product. In many industries providing quality service is no longer simply an option. The quick pace of developing technologies makes it difficult to gain strategic competitive advantage through physical products alone. Customers not only expect high quality goods, but also expect high levels of service along with them. Companies are realizing the need to focus on service to keep pace with rising customer expectations and to compete effectively. Similarly, various services sectors are depending on quality products to improve their service quality. Good hospitals use the latest technical and testing equipment, hotels provide well furnished rooms, TV channels use the digital transmission equipment, banks use the ATM equipment, airlines use most comfortable airplanes, etc. Thus, continuous product improvement and service improvement are simultaneously going on in many sectors.

An important point which needs to be mentioned here is that when it comes to a marketing offer it becomes very difficult to draw a clear, demarcating line between product and service. According to T. Levitt, a renowned marketing specialist, "In almost every tangible pure physical product, an intangible service component is associated. Therefore, everybody is in service. " Philip Kotler, one of the world's leading authorities on marketing, classified a marketing offering into the following categories for establishing the product– services relationship:

- a) **Pure Tangible Good only:** The offering is only tangible goods such as toothpaste, soap, etc., but no services accompanying the product.
- b) **Tangible Good with Accompanying Service:** The offering consists of a tangible good accompanied by one or more service. Automobiles companies, for example, offers repairs, maintenance, warranty fulfillment, frees service up to a period or kilometers, and other services along with its cars. For more technologically sophisticated durable

products, the sales depend on accompanying services. Examples include computers, TVs, washing machines and many other durable goods. Industrial goods particularly Capital goods also require certain types of services along with the tangible product.

- c) **Hybrid:** The offering consists of equal parts of goods and services. For example, people go to the restaurants both for food and service.
- d) **Major Service with Accompanying Minor Goods and Services:** Here the offering is predominantly in the form of a service. Here consumer primarily goes for the quality of service but may give importance to accompanying minor goods and services. For example, Airlines not only provide the transportation as the major service, but also provide food, drinks, magazine and other facilities as accompanying minor goods and services.
- e) **Pure Services:** The offering consists primarily of service and no or very insignificant accompanying minor goods or services. For example, insurance, banking, psychotherapy, baby-sitting, hair cutting, etc.

Because of this varying nature of goods-to-service mix, it is difficult to generalize services without further distinctions. Services can be classified or distinguished as follows:

- i) Equipment based services (e.g. Automatic car washing, repair etc.) and people based services (e.g. accounting services, banking, etc.).
- ii) Services requiring presence of clients (e.g. surgery, hair cutting, etc.) and services not requiring presence of clients (e.g. banking, broking, etc.).
- iii) Services meeting personal needs (e.g. telephone, credit cards, etc.) and services meeting business needs (e.g. technical consultancy, call centre services, etc.).
- iv) Service providers with profit oriented objectives and service providers with non-profit oriented objectives.
- v) Service enterprises under private sector and service enterprises under public sector.

17.6 SERVICES CLASSIFICATION

A large number of classification schemes for services have been developed to provide strategic insights in managing them. Utilizing different bases, these schemes allow us to understand the nature of the service act, the relationship between service organization and its customers, the nature of service demand and the attributes of a service product. Let us discuss the schemes briefly.

1) The Nature of the Service Act

Using the two dimensions of tangibility of the service act and to whom services are directed at, Lovelock classified services according to the fact

whether services are directed at people or possessions, at minds, physical possessions or assets. Table 17.2 will help you understand this classification scheme.

Table 17.2 Nature of the Service Act

Nature of the Service Act	Services Directed At	
Tangible Action	People	Possession
	Services directed at peoples bodies Healthcare, Salons, Restaurants, Transportation	Directed at goods, Physical possessions Transportation, Laundry/Dry-cleaning, Lawn care.
Intangible Action	Services directed at people's minds Education, Broadcasting, Information, Museums.	Services directed at intangible assets Banking, Legal Services, Insurance, Accounting

2) Relationship between Service Organisation and Customers

In the service sector both institutional and individual customers may enter into continuing relationships with service providers and opt for receiving services continually. Services can therefore be classified on the basis of whether the nature of the relationship is continuous or intermittent and whether a consumer needs to get into a membership relationship with the service organisation to access and utilize the service.

Table 17.3: Services and Customer Relationships

Type of Relationship		
Nature of Delivery	Membership	Non-Membership
Continuous	Insurance Education Banking	Police protection Public highway
Discrete	Theatre seat subscription Commuter tickets	Car rental, Pay telephone Restaurant

3) How the Service is Delivered

Lovelock has used two issues of number of delivery sites (whether single or multiple) and the method of delivery to classify services in a 2 x 3 matrix. The implications here are that the convenience of receiving the service is the lowest when the customer has to come to the service and must use a single or specific outlets. As his options multiply, the degree of convenience can go on rising, from being able to choose desirable sites, to getting access at convenient locations.

Table 17.4: Services delivery modes

Service Delivery Modes		
Nature of Interaction between Customer and Organisation	Availability of Outlets	
	Single site	Multiple site
Customer goes to service organisation	Theatre	Bus Service Fast Food Chain
Services organisation comes to the customer	Lawn care Pest control	Mail delivery Emergency auto repair
Customer and organisation transact business at arms length	Credit cards Local TV station	Telephone company Broadcasting

4) Proportion of Tangibility and Intangibility

Using the characteristic of intangibility of services, Shostack proposed that all goods and services can be placed on a tangibility intangibility continuum. This is done with services clustering towards low to high intangibility. Accordingly, services can be classified as those with a low intangibility content (a fast food restaurant) and a pure service, having very high intangibility content (education, consultancy, medical advice).

5) Service Inputs

Services based on this criterion have been classified as primarily equipment based or primarily people based service depending upon which input is primarily applied to get service outputs. The equipment based services can be further classified according to whether they are fully automated, or consist of equipment monitored by un skilled persons (lift operators, delivery van personnel) or need the presence of skilled personnel to man the equipment (quality control, diagnostic services).

6) Contact between the Consumer and the Service Provider

Services also differ in the extent of contact that needs to be maintained between the User and Provider. The marketing implication in this case being the necessity of physical presence of the provider as well as need to manage desired quality of personnel in case of high contact services. On this basis all services can be classified as high contact or low contact services, depending upon the time a user needs to spend with the service organisation/provider in order to utilize/acquire the service. Examples of low contact services are telecommunications, dry-cleaning and broadcasting while high contact services are education, hospitality, theatre performance.

7) Profit and Public vs Private Services

Service can also be classified on the basis of whether they are primarily directed at public at large or primarily at individuals. The public services include utilities and infrastructural services like transport and communication. They also include services provided by the state for public welfare like hospitals, educational and vocational institution, parks and museums etc. The private services on the other hand include the whole gamut of services designed for and consumed by customers as individuals e.g., restaurants, beauty care and medical advice. The implications underlined by this classification manifest themselves in issues regarding planning and design of service for public vs. private consumption. Involved here are issues of process, volume and distribution of services when they are designed as public services. Services have also been classified by Kotler as services designed for profit and nonprofit services, depending upon the marketing objectives to be pursued in the exchange of services.

Check Your Progress A

1) Fill in the blanks:

- i) are a series of deeds, processes and performances.
- ii) The basic difference between goods and services is
- iii) Services cannot be from the service provider or producer.
- iv) On the basis of relationship between service organisation and customers, service can be classified as service.
- v) Education, hospitality and theatre performance are contact services.

2) State whether the following statements are True or False:

- i) The output of services are physical products.

- ii) Perishability refers to the fact that services cannot be saved or resold or returned.
- iii) Services have the characteristic of homogeneity.
- iv) A fast food restaurant is an example of a pure service.
- v) Services and products complement each other in many cases.

17.6 MARKETING OF SERVICES

Marketing theory and practice were developed initially in connection with physical product such as soaps, cars, and other tangible products. However, in the recent years there has been a phenomenal growth of services. We find this trend world-wide. More and more tangible or physical products now contain a service component, both to meet the needs of the targeted customer segment and to create a distinctive differentiation for competitive reasons. Many manufactured goods are supported by services such as warranties or guarantees.

There are a large number of companies who are mainly in the service business. Service industries vary greatly in terms of services they provide and their size. In the present world of information era, many service industries such as banking and other financial services are not only the mainstay of economy but also dominating Internet and e-commerce.

Academicians and marketing experts have brought to light the specific characteristics of services which we have discussed in the previous section and come to know that services differ from goods in many aspects therefore different marketing approach is necessary for services. This need gives rise to the concept of service marketing. This does not mean that the traditional marketing philosophies, methods and techniques are totally irrelevant to the services sector. In fact, the fundamentals of marketing are the same for both the sectors. What is required is the development of an adaptable mechanism to a different environment, keeping in view the service characteristics. Thus, service marketing is nothing but the application of suitably modified and customized traditional marketing philosophies to the services sector.

Services marketing is a sub-field of marketing, where the traditional marketing philosophies are modified and customized to suit the needs of the service sector. It includes marketing of different forms of services such as telecommunication services, financial services, hospitality services, rental services, travel services, health care services and professional services.

17.6.1 The Services Marketing Mix

The unique characteristics of services make the traditional 4 P marketing mix seem inadequate. Careful management of these 4 Ps - Product, Price, Place and Promotion though essential, are not sufficient for successful marketing of

services. Further the strategies for the four Ps require some modification while applying to services.

Since services are produced and consumed simultaneously, the contact personnel or the service delivery personnel become extremely important. It is during these encounters of service providers and customers i.e. the process - on which a lot depends with regards to the final outcome as well as the overall perception of the service by the customer. The actual physical surroundings during these encounters have also a substantial bearing on the service delivery. All these facts lead to the development of an expanded marketing mix with three new P's added to the traditional mix. These are:

People: All human actors who play a part in service delivery thus influence the buyer's perceptions; namely, the firm's personnel, the customer, and other customers in the service environment.

Physical evidence: The environment in which the service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service.

Process: The actual procedures, mechanisms and flow of activities by which the service is delivered - the service delivery and operating system

Because of the simultaneous production, delivery and consumption of services, the nature of marketing departments and marketing functions become quite different as compared to goods. The marketing function - all activities which influence the preferences of the consumers towards the offerings - is mainly handled by marketing departments in case of goods. Here as far as consumers are concerned, marketing departments (the organisational entity which is responsible for some, but not necessarily all marketing activities performed by the firm) can plan and implement most of the marketing activities i.e., the marketing department is able to control almost the total marketing function. In the service sector the situation is entirely different. A traditional marketing department in services can only control a minor part of the marketing function. Usually, it does not have the necessary authority to manage the buyer/seller interaction. The marketing department therefore, cannot plan and implement activities pertaining to interactive marketing function.

Therefore the marketing function, which is a key function in service sector require a special treatment. The total marketing in services include three different types of marketing as shown in Figure 17.1.

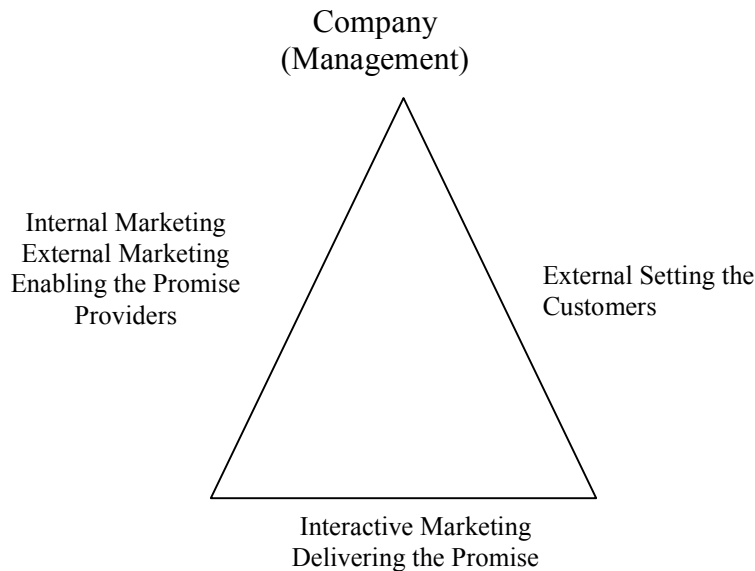


Figure 17.1: The Services Marketing Triangle

As can be seen from the triangle, the traditional marketing mix and marketing departments basically address to 'External Marketing' only. However, all three sides, are critical to successful services marketing and the triangle can't be supported in the absence of anyone of the sides.

17.6.2 Marketing Strategies for Service Firms

Service firms started using marketing tools very late. Traditional 4Ps work well for tangible goods, but additional elements are required in case of services. These additional Ps are (i) physical evidence, (ii) processes, and (iii) people. Because most services are provided by people, the selection, training and motivation of employees can make a huge difference in customer satisfaction. Companies also try to demonstrate their services quality through physical evidence. Example hostel, banks with atmospherics can show quality of service.

Service firms can choose among different processes to deliver their services. For example, installation of ATM by banks, Teller system, hospitals etc. In view of the complexity, service marketing requires not only external marketing, but also internal and interactive marketing. External marketing describes the normal work to prepare, price, distribute and promote the service to customers. Internal marketing describes the work to train and motivate employees to serve customers well (you will learn more about internal marketing in Unit 20). The interactive marketing describes the employees' skills in servicing the clients/customers.

Although services are intangible but we can create some sense of tangibility in it by creating a nice physical evidence. For example, in hospitality sector or in restaurants, creating an attractive cozy ambience can give a different feeling to the customers. We can understand the importance of the extended three Ps in making strategies by the services firm, by taking an example of a spa or beauty salon. First impression is created at the reception counter.

Customers' first encounter is with the receptionist. The communication and behavior of the receptionists decide whether a new client entering into the spa will be converted into a customer or not. In addition to that the whole process of attending the customers and taking them to the chambers and quality of delivered services will make an impact on the decision of the customers. The ambience and the aroma plays a very important role in having delighted customers, besides the services that are rendered to them at the centers.

Thus while formulating marketing strategies, a service firm needs to take into consideration all the seven Ps of marketing i.e., Product Decision, Price Decision, Promotion Decision, Place Decision, People Decision, Process Decision and Physical evidence Decision.

17.6.3 Challenges in Marketing of Services

Owing to the peculiar characteristics of the services, marketers in service business face a unique set of challenges while formulating the effective marketing strategy. Although these challenges are innate, they can always be worked upon. The traditional marketing mix is composed of the 4 Ps viz., product price, promotion and place (distribution). These elements appear as core decision variables in any marketing plan. All these four variables are interrelated, and there is an optional mix of the four factors for a given market segment at a given point of time. Though, conceptually marketing of services is no different from marketing of products, the strategies of the 4 P's, however, require some modifications when applied to services. Because of the significant differences between goods and services, marketers of services face some distinctive challenges. Such challenges revolve around understanding customer needs and expectations, and the efforts to keep promises made to customers. The basic differences between products and services, and the associated marketing implications, are shown in Table 17.5

With adequate focus on the 7 PS (Product, Price, Promotion, Place, people, process and physical evidence) of services mix, marketers develop a marketing strategy that suits best for the services that they are offering. It is needless to mention here that extra focus is to be given on the extended Ps i.e., People, Process and Physical evidence. While delivering the services the marketers have to consider the expected outcome of the services rendered to the customers. Also, marketers have to thoroughly keep in mind the people and the process involved in delivering the service. People who are interacting with the customer as first communicator of the firm can really play a very important role. For instance, you go to a hotel room and the guard who is welcoming you at the doorstep while opening the doors for you may have a huge impact in the minds of the customers. Similarly, the processes through which the services are rendered are also the decision points for the customer, thus, deciding the fate of marketing. If the process is soothing and pleasing, half battle is won there. Say, you are going to take corona vaccine, the process through which vaccine is administered, also plays a very important role. Although services cannot be touched or seen but there are some physical

evidences of the services, such as a beautiful hotel room with clean towels and new toiletries.

Table 17.5: Differences between Products and Services, and the Associated Marketing Challenges

Goods	Services	Resulting Marketing Implications
Tangible	Intangible	Services cannot be inventoried. Services cannot be patented. Services cannot be readily displayed or communicated Pricing is difficult
Standardised	Heterogeneous	Service delivery and customer satisfaction. Depend on employee actions . Service quality depends on many uncontrollable factors. There is no sure knowledge that the service delivered matches what was planned and promoted
Production separate from consumption	Simultaneous production and consumption	Customers participate in and affect the transaction Customers affect each other Employees affect the service outcome. Decentralization may be essential. Mass production is difficult.
Non-Perishable	Perishable	It is difficult to synchronize supply and demand. Services cannot be returned or resold.

Source: Valarie A. Zeithaml and May Jo Bitner. Services Marketing, McGraw Hill, New York.

Intangibility presents several marketing challenges. As services cannot be inventoried, fluctuations in demand are often difficult to manage. For example, there may be very huge demand for hotel accommodation in Shimla in summer as against low demand in winter. Yet, hotel owners have the same number of rooms to sell year-round. Services cannot be patented legally. Hence, new service concepts can be easily copied by competitors. Since

services cannot be readily displayed or easily communicated to customers, it may be difficult for consumers to assess the quality of a particular service before use. Decisions about what to include in advertising and other promotional materials may prove challenging, as is pricing. The actual costs of a unit of service are hard to determine and the price/quality relationship is complex. As services are not tangible, it is not possible to provide samples and significant physical evidence. The physical evidence of services includes all of the tangible representations of the service such as brochures, letterhead, business cards, report formats, and equipment. These physical evidence cues provide excellent opportunities for the firm to send consistent and strong messages regarding the organization's purpose, the intended market segment, and the nature of the service.

The intangibility of the service reduces the marketers' ability to provide samples. This makes *communicating the service offer much more difficult than communicating a product offer*. Brochures or catalogues explaining services often must show a "proxy" for the service in order to provide the prospective customer with tangible clues. A cleaning service for instance, can show a picture of an individual removing trash or cleaning a window or even a photograph of a clean room. However, the picture will not fully succeed in communicating the quality of service.

As services are heterogeneous ensuring consistent service quality is challenging. Further, quality depends on many factors that cannot be fully controlled by the service supplier, such as the ability of the consumer to articulate his or her needs, the presence (or absence) of other customer, and the level of demand for the service etc. Because of these complicating factors, a marketer is often not sure whether the service is being delivered as originally planned and promoted. All associated problem is that, unlike in the case of products there is no objective yardstick to determine the quality of a service. Laboratory tests can establish the quality of a product but the quality of service is dependent on the perception of the customer.

Since services often are produced and consumed simultaneously, mass production is difficult, if not impossible. Moreover, it is not usually possible to gain significant economies of scale through centralized production. Usually operations need to be relatively decentralized so that the service can be delivered directly to the consumer in convenient locations. Also because of simultaneous production and consumption, the customer is involved in and observes the production process thereby affecting (positively or negatively) the outcome of the service transaction. Some customers can cause problems in the service setting, leading to lowering of customer satisfaction. For example, in a cinema theatre, one person misbehaving with other audience can create negative experience to the entire audience and may become a dissuading factor next time.

As services are perishable, they cannot be stored for future consumption. Hence, demand forecasting and planning for capacity utilisation are

challenging decision areas for marketers. The fact that services cannot typically be returned or resold implies the necessity for strong recovery strategies when things do go wrong. For example, while a bad haircut cannot be returned, the hairdresser should have strategies for recovering the customer's goodwill when such a problem occurs. The hair dresser may, by refunding the charges collected from the customer, perhaps, recover part of the goodwill lost.

The role of personnel deserves special consideration in the marketing of services. Because the customer interface is intense, proper provisions need to be made for training personnel. Major emphasis must be placed on appearance and behavior. Most of the time, the person delivering the service (rather than the service itself) will communicate the spirit, values and attitudes of service provider. All human actors who play a part in service delivery influence the buyer's perceptions and provide cues to the customer regarding the nature of the service itself. How these people are dressed, their personal appearance, their attitudes and the way they interact with customers, all influence customer's perceptions of the service. Therefore, the role of service provider or contact person is very important.

The areas of pricing and financing require special attention. Because services cannot be stored, much greater responsiveness to demand fluctuation must exist and therefore, much greater pricing flexibility must be maintained. Hotels offering discounts in room tariff during off seasons is part of the flexible pricing strategy. The intangibility of services also makes financing more difficult. Financial institutions are less willing to provide financial support to services than for products. This is because of three reasons: (a) the value of services is more difficult to assess, (b) service performance is more difficult to monitor, and (c) services are difficult to repossess. Therefore, receiving payments may be much more troublesome for a financier in the case of services than products. This poses a challenge to the marketer of services in procuring finances.

Usually, *short and direct channels are required for marketing of services.* Closeness to the customer is of overriding importance in order to correctly understand what the customers want, to reach them fast with minimum cost; to monitor the flow and utilization of services, and to assist the construct in obtaining a truly tailor made service.

17.7 PRODUCT SUPPORT SERVICES

Product support services play a very important role in acquiring and retaining the customers into the business. When the customers buys a tangible product, they not only buy that product but also various other solutions that are associated with the product. For example, when a customer buys a smart phone or any other electronic gadgets (commodities), she is provided with the manuals, product information booklet, warranty, guarantee and other after

sales services. The marketer may also include free services, maintenance etc. Besides, the way in which the consumers' grievances and complaints are handled, the response time, installation facilities, product demonstration etc. also plays a very important role in acquiring and maintaining a loyal customer in the business. These are called **product support services**. Better the services higher shall be the foot fall of the customers in the stores. This also gives an edge to the marketer's vis-à-vis the competitors in the market. This is one of the important ways, in which, the marketer can differentiate the product in the market. These product support services increase the customer loyalty and enable customer retention. Goodwill and credibility of the marketer and the product, depends, up to a large extent, on the product support services that are provided to the customers.

Check Your Progress B

- 1) Fill in the blanks:
 - i) The various other solutions that are associated with the product in the form of warranty, guarantee, maintenance, installation etc. are called
 - ii) Usually, channels are required for marketing of services.
 - iii) The extended Ps of service marketing are
 - iv) The intangibility of the service reduces the marketers' ability to provide
 - v) refers to the actual procedures, mechanisms and flow of activities by which the service is delivered
- 2) State whether the following statements are True or False:
 - i) The role of service provider or contact person is not important in marketing of services.
 - ii) Elements of marketing mix for services are different from tangible products.
 - iii) Quality of service is dependent on the perception of the customer.
 - iv) Product support services decreases the customer loyalty and disable customer retention.
 - v) Some sense of tangibility in services can be created by creating a nice physical evidence.

17.8 LET US SUM UP

The term service is rather general in concept and includes a wide variety of services. Services are essentially performances. Marketing of services needs a

different treatment because of the unique characteristics of services that distinguish them from products. These characteristics are intangibility, heterogeneity, inseparability and perishability. Due to these characteristics services marketing includes three additional marketing mix elements viz. People, Physical Evidence and Process.

Any market offering that is intangible is called services. The services are separately identifiable, essentially intangible activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or another service. For example, hospitals, hotels, universities, banks, insurance companies, transport firms, fire departments, police and post office.

Services marketing mix consists of 7 Ps of marketing i.e. Product, Price, Promotion, Place, People, Process and Physical Evidence.

While formulating marketing strategies, a service firm needs to take into consideration all the seven Ps of marketing i.e. Product Decision, Price Decision, Promotion Decision, Place Decision, People Decision, Process Decision and Physical evidence Decision.

Owing to the peculiar characteristics of the services, marketers in service business face a unique set of challenges while formulating the effective marketing strategy. Although these challenges are innate, they can always be worked upon.

Product support services play a very important role in acquiring and retaining the customers into the business. Product support services increase the customer loyalty and enable customer retention. Goodwill and credibility of the marketer and the product, depends, up to a large extent, on the product support services that are provided to the customer

17.9 KEYWORDS

Hybrid Offering: it consists of equal parts of goods and services.

People: all human actors who play a part in service delivery thus influence the buyer's perceptions; namely, the firm's personnel, the customer, and other customers in the service environment.

Physical Evidence: the environment in which the service is delivered and where the firm and customer interact, and any tangible components that facilitate performance or communication of the service.

Process: the actual procedures, mechanisms and flow of activities by which the service is delivered - the service delivery and operating system.

Pure Services: it consists primarily of service and no or very insignificant accompanying minor goods or services.

Pure Tangible Goods: when the offering is tangible goods only with no services accompanying the product.

Services: the services are separately identifiable, essentially intangible activities which provide want satisfaction, and which are not necessarily tied to the sale of a product or another service.

17.10 ANSWERS TO CHECK YOUR PROGRESS

A. 1. i. services ii. intangibility iii. separated iv. continuous and discrete v. high

2.i. False ii. True iii. False iv. False v. True

B. 1. i. Product support services ii. short and direct iii. people, process and physical evidence iv. samples v. process

2. i. False ii. True iii. True iv. False v. True

17.11 TERMINAL QUESTIONS

- 1) What do you understand by the term service? Discuss the characteristics of services.
- 2) Differentiate between products and services giving suitable examples.
- 3) Discuss the various classification schemes for services with examples.
- 4) “Though, the products differ from services in many respects, there are so many inter-linkages between them”. Comment
- 5) Discuss the challenges faced by a marketer while formulating an effective marketing strategy for services.
- 6) Briefly discuss the service marketing mix and service marketing triangle.
- 7) Owing to the peculiar characteristics of the services, explain the marketing strategies adopted by service firms.

Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.

UNIT 18 RURAL MARKETING

Structure

18.0 Objectives

18.1 Introduction

18.2 Rural Markets

18.2.1 Features of Rural Markets

18.2.2 Importance of Rural Markets

18.2.3 Factors affecting Growth of Rural Markets

18.2.4 Challenges of Rural Markets

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18.3 Rural Marketing

18.3.1 Definition

18.3.2 Rural Marketing Mix

18.3.3 4 As of rural marketing

18.4 Emerging Trends of Rural Marketing in India

18.5 Let Us Sum Up

18.6 Key words

18.7 Answers to Check Your Progress

18.8 Terminal Questions

18.0 OBJECTIVES

After going through this unit; you shall be able to:

- explain the concept of rural markets and their characteristics;
- describe various ways to understand the rural consumers;
- explain the rural marketing;
- discuss the reasons for boost in rural marketing;
- elaborate the recent trends of rural marketing in India; and
- comprehend the need of separate marketing mix for rural marketing.

18.1 INTRODUCTION

With the liberalization of Indian economy, we have witnessed changes on all the fronts. On the marketing front, the major change has been the arrival of many well known Multinational Corporations. Initially they tapped the well developed urban markets. This brought tough competition in those markets and eventually the companies started focusing on the large untapped market

segment. Needless to mention, it was the very promising segment “the rural markets of India. The government initiative to strengthen the rural India resulted in the rapid growth of rural income which increased the purchasing power of the rural population, the (“prospective consumers”, in the language of marketing). The vast size of the rural markets and their demand offers enormous opportunities to the marketers. As the saying goes, if there is opportunity, there has to be challenges as well. In rural marketing there are lots of challenges. Marketers, who are looking at the challenges and opportunities, offered by rural India and understand the dynamics of the rural markets, are trying to take the advantage of it. Hence, it has become necessary for us to understand the overall concept of rural marketing, its importance and the opportunities offered, the challenges posed by rural markets and the emerging trends of rural marketing in India.

18.2 RURAL MARKETS

The census of India defines rural area “as any habitation with a population density of less than 400 per sq. km., where at least 75 percent of the male working population is engaged in agriculture and where municipality or board does not exist”. There are nearly 6.4 lakh villages in India of which only 20,000 have population of more than 5000. Most companies in fast moving consumer goods (FMCG) sector define rural market as any place with a population upto 2,000.

Understanding and managing rural market is not an easy affair, as it is full of challenges. If we study the Indian rural society, there are different villages, each being different in terms of geographical, economic, cultural, moral and other structures. The behavior patterns of the habitants and their beliefs, ideas, faiths etc are different.

A few challenges of rural markets are: understanding rural consumers, making availability of the products and services in remote rural locations, and communicating with vastly heterogeneous rural consumers etc.

18.2.1 Features of Rural Markets

Features of Rural Markets

There are certain specific features of rural market that need to be considered before going for rural marketing. These are as follows:

- 1) **Population is large and scattered.** In India around 65 percent of population lives in rural areas. Rate of increase in population is also higher. This large population is scattered in over six lakh villages. Although it poses some difficulty to the marketers but also gives them a huge and promising market.
- 2) **Rising purchasing power.** Gone are the days when income level of rural people was low. With the green revolution and opening up of the

economy after 1990, India has seen an overall growth. This has raised the income level of rural consumers as well. It is needless to mention that higher the income level, higher shall be the purchasing power and demand.

- 3) **Steady market growth.** Rural market is growing steadily over the years. Consumption pattern and preference is also changing. Unlike the past years, rural market has demand for branded products along with the traditional products such as bicycles, mopeds and agricultural inputs. IT and media has further increased the awareness amongst the rural consumers and there is a surge in demand of cosmetics, FMCGs, consumer durables etc. over the years.
- 4) **Development of infrastructure facilities.** Infrastructure facilities have developed in the rural areas. This has reduced the distance of villages to the cities. With the construction of roads and transportation, communication network, rural electrification and several public service projects run by the government, connectivity of villages to cities has increased. This has increased the scope of rural marketing.
- 5) **Low standard of living.** Although many developments are taking place in rural areas in India, still the fact remains that the standard of living in villages is relatively lower for people who comes under the second and third groups of consumers (see section on rural consumers, discussed above in this unit. People who have sizeable land holdings but they are not very rich farmers (second group) and the people who are daily laborers (third group) who mostly demand the goods and services which are necessities, in small quantities more frequently.
- 6) **Traditional outlook.** Rural consumers value their old values, culture, customs and tradition. This influences their demand pattern. However, their demand pattern is changing gradually and demand for cosmetics and branded goods are gradually seeping in the rural markets.
- 7) **Separate marketing mix is required.** Considering the features of the rural market, it becomes essential for the companies to prepare a separate marketing mix for the rural markets to tap its potential to the fullest.

18.2.2 Importance of Rural Markets

India is one of the largest markets in the world. The real India lives in villages. Due to various reasons such as globalization, glocalisation, economic liberalization, IT revolution and improving infrastructure; rural India has been emerging as significant attraction for the marketers. The size of rural market in India is so vast that the companies aspiring for growth cannot afford to overlook this segment of market. The future of companies greatly depends upon understanding the dynamics of the rural markets. The increasing focus on farm sector has been boosting the income level of rural consumers. This provides enormous opportunities to the marketers.

Infrastructure facilities are becoming better which in turn will help in improving the supply chain operations. The consumption pattern of rural consumers is also witnessing a change.

18.2.3 Factors affecting Growth of Rural Market

The various factors that have led to the growth of rural market in India can be summarise as follows:

- a) Increased demand due to increase in population;
- b) Agriculture sector is prospering which has risen the rural income;
- c) Increased Standard of living;
- d) Government and non-government organizations are taking keen interest in rural development;
- e) Increased literacy rate and educational level;
- f) Inflow of foreign remittances and foreign made goods into rural areas;
- g) Improved Rural Infrastructure;
- h) Increasing awareness of rural consumers about new products; and
- i) Growing urban-rural interaction.

18.2.4 Challenges of Rural Markets:

The various challenges faced by firms in India in respect of rural markets are as follows:

- 1) In many remote locations even today the barter system exists. This is one of the major obstacles in the way of development of rural marketing in India.
- 2) Impact of information technology is not experienced uniformly across the nation. The advantage of it has been experienced primarily by the farmers with big land holdings. Farmers with small land holdings are not able to enjoy the advantage. This inequality has made the markets underdeveloped even today.
- 3) In terms of facilities related to physical communication, it is not equally good for all the corners across the nation. Most villages in eastern part of the country are inaccessible during monsoons. They do not have all weather roads. This makes the physical communication very expensive.
- 4) Demand in rural markets depends primarily on the agricultural situation as agriculture is the main source of their livelihood. Agriculture in some of the large states of India such as Uttar Pradesh, Bihar, and Madhya Pradesh depends heavily on monsoon. This means the purchasing power of the customers is dependent upon the monsoon and it varies from one year to the other. Hence, demand forecasting becomes difficult for the marketers.

- 5) Traditional outlook of the rural consumers also poses threats to the marketers. As a result of traditional thought process their buying decision may be delayed.
- 6) Difference in language and dialects also poses problems to the marketers. The language and dialects differ not only from state to state but also from one region to the other. This makes the formulation of marketing strategy very difficult. At the same time, the decision of the extent of coverage of the market may be very complex.
- 7) There are several other factors that pose threats to the rural marketers such as natural calamities, pests and diseases, drought or excess of rain fall (for instance the situation of monsoon this year has greatly devastated the rural consumers), lack of proper storage facility, transportation, Insurance etc.
- 8) Besides, there are certain other challenges related to rural warehouse, supply chain operations, rural infrastructure and fluctuation in the price of agricultural products etc.

As a marketer, you cannot afford to overlook these problems and challenges in handling the rural markets. The only catch here is how well you are able to understand the dynamics of rural markets and how efficient you are as a marketer to catch hold by the nerves of the rural consumers. Hence it becomes utmost important to understand the rural consumers and their buying behavior.

18.2.5 Rural Consumers

In marketing, it is always emphasized that the foremost important thing is to understand the target customers. Hence a brief idea about rural consumers in India who are different from the urban customers in terms of taste, preference, education level, socio economic status etc. In the record most of them are illiterate and have low education levels. Their income levels are also low. The principal occupation of most of them is farming and some happen to be craftsmen. Rural consumers differ from region to region and state to state. A consumer in rural areas of Punjab is considerably different from their counterparts in states like Uttar Pradesh and Bihar. Similarly the consumers of Kerala and Karnataka are more educated than their counterparts in other states. There is a difference in the prosperity of consumers of different regions and states. There are distinct segments in rural markets in India. These can be grouped in three different categories. In the first group, there are rich farmers who have bigger pieces of land and have huge surplus income with high purchasing power. Their consumption pattern matches with the urban consumers. They lead luxurious and urban type lifestyles.

In the second group (category), there are farmers who have enough land but their economic status is not as prosperous as the first group. However in terms of rural standards they have a respectable life style and are self

sufficient to a great extent. Their purchasing power is good but less than that of the first category.

The third groups of consumers are farm labourers or daily wage earners. Their purchasing power is very limited. They buy the required products frequently and that low in small quantities.

The buying process of rural consumers also varies. Unlike urban markets, their buying decision is influenced by males of the family. It has also been noted that in urban markets, people make independent decision, whereas, in rural areas decision may be influenced by the family members and the community. However the scenario in rural market is also witnessing change. Marketers have to keep a breast of the changes that are taking place in the rural markets. These need to be closely monitored. Despite such heterogeneity, there is some kind of commonality too. On an average, rural consumers are reluctant consumers. They prefer liquidity and do not want to part with their money easily. Selling very expensive products and services may be difficult. Price sensitivity is much higher in their case.

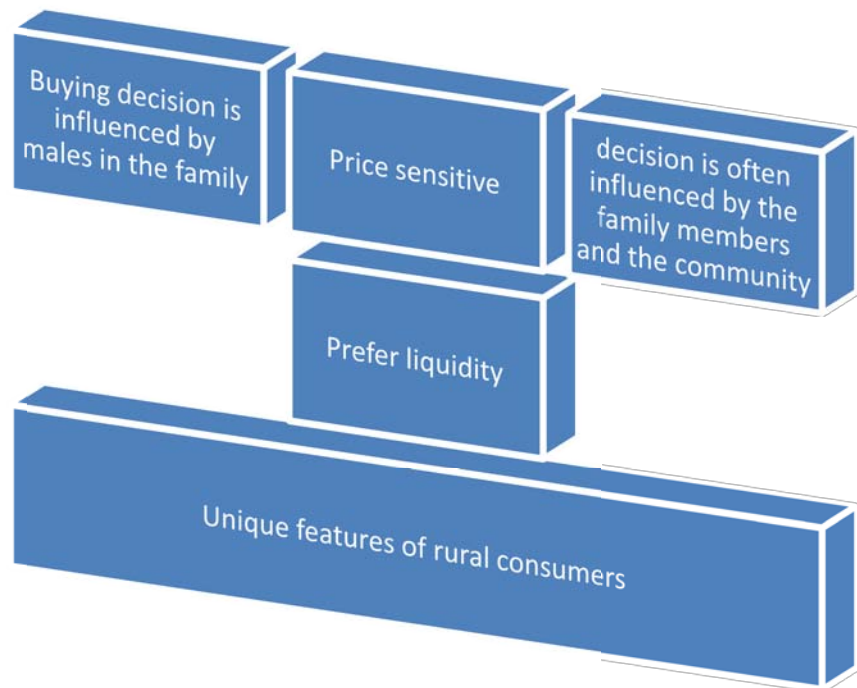


Figure 18.1: Unique Features of Rural Consumers

Check Your Progress A

- 1) Outline the importance of rural markets.
- 2) State four main features of rural markets.
- 3) List out the important challenges of rural markets.
- 4) Differentiate between urban consumers and rural consumers.

5) Fill in the blanks:

- i) Rural market as any place with a population upto
- ii) Standard of living in villages is relatively for people who come under the second and third groups of consumers.
- iii) Demand in rural markets depends primarily on the situation.
- iv) The third groups of rural consumers are or
- v) In urban markets, people make decision.

18.3 RURAL MARKETING

Quite often rural marketing is confused with agricultural marketing i.e., marketing of agricultural products to industrial consumers and/or urban consumers. Infact, it refers to selling processed goods and services to the rural consumers with a separate set of marketing mix.

However, earlier it was thought of selling of rural products in rural and urban areas and selling of agricultural inputs in rural markets. It was treated as synonymous to agricultural marketing and was highly influenced by indigenous sellers like banyas and mahajans (local business people) and was highly unorganised. After green revolution, the face of rural marketing started changing. Villages started being prosperous and demand for agricultural inputs started rising. Government also took several steps such as setting up agencies like **Khadi and Village Industries Commission (KVIC)**, **Indian farmers Fertiliser Cooperative Limited (IFFCO)**, **Krishak Bharti Cooperative Limited (KRIBHCO)**, **Girijan Co-operative Societies**, **Andhra Pradesh State handloom Weavers Cooperative Society Ltd (APCO fabrics)** etc. as well as paying special attention to promote their products. This resulted into flourishing village industries. Products made by rural artisans like handicrafts, handloom textiles, crackers etc. hit the urban markets on a large scale. Further, the opening up of Indian economy and the concept of LPG (Liberalization, Privatisation and Globalisation) being brought during 1990, the rural marketing got a greater push. Rural areas witnessed an all round socio economic progress and the marketers started seeing rural markets as potential market for household consumables and durables.

Now a days, no company, aspiring for growth and larger market share, can afford to ignore rural markets and even big retail companies are trying to tap the rural markets.

18.3.1 Definition

“Rural marketing is a function of all efforts made by the companies to move their already marketed goods and services to the rural consumers that gives them satisfaction, enhances their standard of living and thereby attains the organizational goal”.

It can be defined as “the process of assessing the region specific demands of goods and services for the rural markets and making the availability of the demanded goods and services to the rural consumers that can satisfy their demand, enhance their standard of living and achieve organizational objectives”.

In fact, rural marketing is a two way communication process. There is inflow of products into rural markets for production or consumption and there is also outflow of products to urban areas. The urban to rural flow consists of agricultural inputs, fast moving consumers goods such as soaps, detergents, cosmetics, textiles and so on. The rural to urban flow consists of agricultural produce such as rice, wheat, lentils, sugar, cotton etc. There is also a movement of rural products within rural areas for consumption. Thus, it is a two way marketing process which includes movement of goods and services from rural areas to urban areas and vice-versa. It also includes movement of goods and services within the rural areas for consumption.

18.3.2 Rural Marketing Mix

You have learnt about various aspects of rural markets and rural marketing. You are also aware about the marketing mix. Let us now learn about rural marketing mix. In order to make their goods and services acceptable to the rural consumers, the companies need to design their marketing mix very carefully. Their goods and services have to suit the existing life conditions of the rural consumers. Current models of electronic gadgets may not be of much use to them as the basic infrastructure required to use these products is either not present or not enough. Companies have to consider this fact and they need to come up with a different model of the same products for the rural consumers. Likewise, they need to customize their product pricing, distribution and promotion decisions (4Ps of marketing mix) to make it best suited for the rural consumers. Let us have a look on each of them.

Product and services Decisions: Most of the households in rural areas still may not have consumer durable products such as television, washing machine, refrigerator, gas stoves etc. This can be viewed as the rural market potential. The companies dealing with consumer durables can look up to these as markets for selling their products. Various studies have shown that rural markets are laggards in picking up new products outdated in urban markets. They think that those outdated products can be sold in the rural markets. For example, demand for semi automatic washing machines is

decreasing in urban markets but it may have a high potential in rural markets as it can be used even without taps of running water.

However, the companies dealing with FMCGs cannot jump into the rural markets blind folded or the same way they operate in urban markets as the consumption pattern of rural consumers is different from urban consumers. People in villages use jaggery or gur in place of sugar. They mostly use mustard oil and pure ghee which they can produce or make on their own. Therefore, FMCG companies will have to make slow and conscious efforts to deliver their products to the rural consumers. They need to communicate with them in a different way.

As far as services are concerned, the rural markets are very promising. The traditional service providers such as Nayee (barber) etc are migrating to cities in search of better opportunities which creates a vacuum that can be tapped by the service providers. Villages also offer a huge market for services like telecommunication, health, education etc. It needs to be kept in view that demand for agriculture inputs is quite large in the rural markets.

Pricing Decisions: You must be knowing that the rural consumers prefer liquidity. They do not want to part away with their money. Especially they do not wish to spend their money on the products and services that they can grow or make themselves. They are also very price sensitive. Not only that their source of income may not be very steady and regular. They have income only when they sell their agricultural produce. But the money is controlled by the eldest male member of the family. For the other members the only medium of exchange is the grains available in the house. This is one of the reasons why few organised retailers have started accepting grains in place of cash in exchange of their goods and services. Alternatively, they should be ready to sell their products on credit and get the payments only when the harvested crops are sold by the farmers.

Distribution Decisions: The next thing for the marketers to understand is to where from and how do the rural consumers buy their goods and services? Rural consumers go to their nearest cities to buy products like tractors, televisions and other consumer durables. For daily household needs such as tea, sugar, soaps, detergent powder etc. they go to local markets near their villages. However, there is no fixed time and schedule for their purchases unlike their urban counterparts. They buy these goods as and when required and not necessarily on a regular basis. Hence, the companies have to decide whether they can afford to make availability of their products in local markets or to have a retailer in each village. A common retailer can be promoted in each village who can stock all types of goods in his shop.

Promotion Decisions: Buying behavior and pattern of rural consumers is highly influenced by the communities. Hence word- of- mouth promotion can prove to be really workable and useful. Therefore, the companies need to identify the influential people in the villages and convince them about their

goods and services. Promotion through radio can also prove to be useful as people in villages use radio for news and other entertainment programmes. TV is also being popular these days and therefore can also be used for the purpose.

A few promotion strategies specific to the rural marketing have also been suggested by researchers to marketers. These are as follows.

- Promotion should be client and location specific.
- Several related items should be bundled and sold to the rural consumers along with after sales services.
- Granting Credit facility to the rural consumers can also be extremely helpful market potential
- A mix of both traditional and modern media can be used for promotion

18.3.3 4A's of Rural Marketing

Rural markets are luring many companies across different sectors for maintaining their momentum of growth and they are trying to tap the relatively untapped market. As you know, the rural consumers are different from their urban counterparts in many ways. Hence, the companies have to use different marketing strategies keeping in mind the characteristics of rural consumers.

Those are termed as 4A's of rural marketing which refers to both challenges of rural markets and key decision areas. The 4A's are- *Affordability, Availability, Awareness and Acceptability*.

These are explained here under.

Affordability: This refers to the purchasing power of the rural consumers and their ability to pay for a particular product or service. Most rural consumers have low disposable income. Therefore, the marketer has to consider revision of prices. It is not always viable to reduce the price of the products. Therefore, many companies are coming up with different strategies to meet this challenge. They are offering their products in smaller quantities and smaller packs so that it can suit the pocket of rural consumers. The examples are small shampoo sachets, smaller pack of biscuits, soaps of smaller quantity, smaller bottles of aerated drinks etc. Such initiatives have actually enlarged their customer base.

Availability: The second such key decision area of rural marketing is the availability of products and services in the rural market. To ensure the availability of goods and services to the consumers, the companies have to provide the necessary transportation facilities. The companies are also adopting various other creative ways to ensure the delivery of their goods and services. Such as, direct selling using company delivery vans, setting up of

temporary stalls in the village melas, etc. To reach the remote village areas, many companies are using auto rickshaws, bullock carts and boats etc.

Awareness: The next challenge of rural marketing is creating awareness amongst the rural consumers about the goods and services being offered by the companies. This implies providing necessary information to the rural consumers. Mass media is playing an important role in this regard. The Companies are also using unconventional media to promote their products. Events in rural areas such as fairs and festivals, haats etc. are used to communicate the brand awareness. Many companies are organizing their specific promotional events, vans and road shows etc. for the purpose. Many companies are trying to involve Gram Panchayat for the purpose of creating awareness.

Acceptability: The 4th “A” of rural marketing is acceptability of the products by the rural customers. For the products to be acceptable to rural customers, it is extremely important that they should suit their requirements. The companies have to tailor made their offerings for the rural consumers. The offerings should have value add-ons along with value for money to attract rural people and gain their acceptability for their products ‘Sampoorna TV’ by LG Electronic, and ‘chhotakool refrigerator’ by Godrej are the most suitable examples thereof.

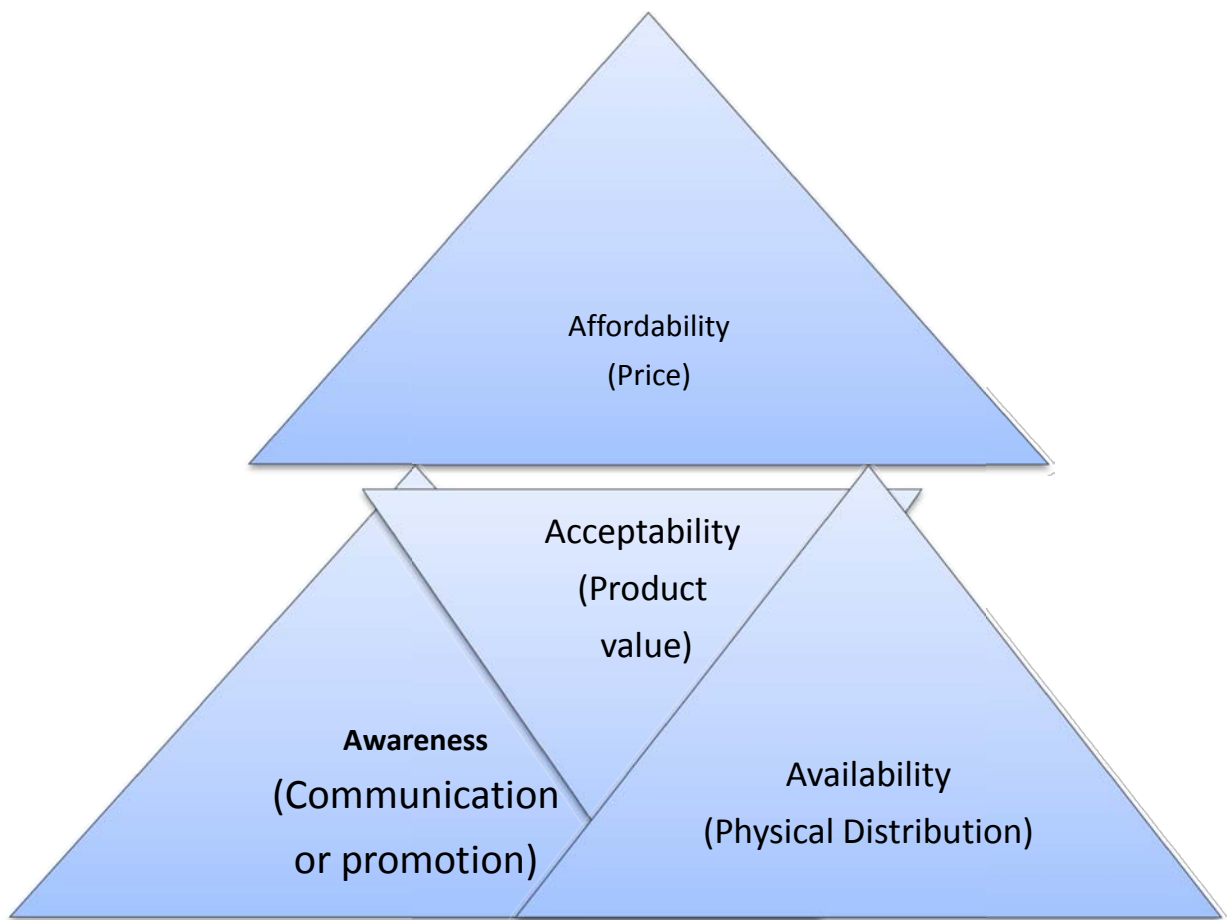


Figure 18.2: The 4'A' Approach of Rural Marketing

18.4 EMERGING TRENDS OF RURAL MARKETING IN INDIA

You have learnt that rural markets have huge potential but it also has several challenges such as widely scattered market, poor infrastructure, uneconomic market size and diverse socio economic profile of rural consumers. Against the back drop of such a challenging environment, marketers are trying to design creative solutions to achieve success. Packaging of the products is customized, products are offered in small quantities (biscuits, soaps, snacksetc) and sachets (shampoo, toothpaste, oil etc). The rural consumers are given extended credit line and for communication, local mediums such as, folk media, haats and melas are being used. Various government and non government bodies are taking several initiative to find out solution for the challenges of rural markets by providing education, health and employment opportunities to the rural people. ICT revolution has also helped. For example, the well known e-governance model of Andhra Pradesh, Gyandoot in Madhya Pradesh and Jagriti e-Sewa proved to be a boon for rural India. Organised retail format is also entering rural India. The magical combination of ICT and organised retailing has overcome the challenges of rural markets up to a large extent. Let us have an idea about some of the emerging trends in rural markets.

- 1) **Introduction of online services in rural markets:** People in rural India are making use of online services for crop information, purchase of agri inputs, consumer durables and sale of rural produce at reasonable prices. Off late, online sale and purchase of quality mangoes are very popular. Farmers who have been growing quality mangoes are selling these online directly to the consumers sitting at far off places. Such practice is being introduced in other agriculture products as well.
- 2) **Encouragement to need based production:** Farmers are being encouraged to go in for need-based production to avoid oversupply of their produces. This is resulting in reduction of storage cost and stability in prices.
- 3) **Enriching Financial strength through cost benefit analysis:** With the help of information technology the farmers are given price information of agri products and agri inputs. This helps them in deciding where to sell their products and from where to buy their agri inputs. This increases their financial strength.
- 4) **Modifying operations and strategies:** Big companies are modifying their operations and strategies to attract the rural consumers. A few examples are given below.
 - Hindustan Unilever is making attempts to empower rural women to make its products reach to rural markets. They are training rural women as “*Shakti Ammas*”.

- Godrej is training rural youth in channel sales and has large format retail stores called “*Adhaar*” in rural markets
- ITC has “*e-Choupal*” which aims at eliminating wasteful intermediation and multiple handling,

5) Emergence of organised retailing into rural markets: Emergence of organised rural retailing has also brought a significant change in rural markets. Many big companies are entering into rural markets with their organised retail format such as Choupal Sagar (ITC), Hariyali Kisan Bazaars (DCM Shriram), Tata Kisan Sagar (Tata Chemicals), Adhaar (The Godrej groups) etc. The government has also established some rural networks such as the Public Distribution System (PDS), Khadi and Village Industries Commission (KVIC) Rural banks and Indian Farmers Fertilizers Cooperative Limited (IFFCO).

Check Your Progress B

- 1) Define ‘rural marketing’.
- 2) Explain the concept of rural marketing mix and its term Ps.
- 3) Explain the 4 A’s of Rural Marketing.
- 4) Narrate the emerging trends in rural markets in India.
- 5) State whether the following statements are True or False:
 - i) Rural marketing is same as agricultural marketing
 - ii) In rural marketing there is only inflow of products into rural markets for production or consumption.
 - iii) Buying behavior and pattern of rural consumers is highly influenced by the communities.
 - iv) Affordability refers to the purchasing power of the rural consumers and their ability to pay for a particular product or service.
 - v) ITC’s “*e-Choupal*” aims at eliminating wasteful intermediation and multiple handling.

18.5 LET US SUM UP

With the liberalization of Indian economy, we have witnessed changes in all the fronts. On the marketing front, the major change was arrival of many well known Multinational Corporations, popularly known as MNCs. Initially they tapped the well developed urban markets. This lured many companies to enter into the market which also brought tough competition and eventually the stage of saturation came in those markets. Now, the companies started to focus on the large untapped market segment. Government initiative to strengthen the rural India resulted into the rapid growth of rural income, thus

increasing the purchasing power of the rural population. The vast size of the rural markets and large demand offers enormous opportunities to the marketers. But it is important to understand that in rural marketing there are lots of challenges as well. Marketers, who are looking at the challenges and opportunities, offered by rural India and understand the dynamics of the rural markets, are able to take the advantage of it.

Rural marketing is a two way marketing process where it includes movement of goods and services from rural areas to urban areas and vice-versa. It also includes movement of goods and services within the rural areas for consumption.

Features of rural marketing are large and scattered population, Rising Purchasing power, steady market growth, development of infrastructure facilities, low standard of living and traditional outlook of the rural consumers.

A separate marketing mix is required in rural marketing. This is popularly known as 4A's of Rural marketing i.e., Acceptability, Affordability, Awareness and Availability.

With the combined efforts of Government and corporate bodies along with NGOs and organised retailing, rural marketing is witnessing a remarkable favourable change and growth.

18.6 KEY WORDS

Rural Market: A habitation with a population density of less than 400 per sq. km, where most working population is engaged in agriculture and where municipality does not exist.

Rural Consumers: The persons living in rural areas.

Rural Marketing Mix: Consisting 4Ps (product, price, physical distribution and promotion) as applicable to rural markets.

Rural Marketing: A process of assessing region specific demands of goods and services for the rural markets and marketing these available to the rural consumers.

Rural Retailing: It is retailing in rural areas

18.7 ANSWERS TO CHECK YOUR PROGRESS

A. 5. i. 2,000 ii. Lower iii. Agricultural iv. Farm labourers, daily wage earner v. independent

B. 5. i. False ii. False iii. True iv. True v. True

18.8 TERMINAL QUESTIONS

- 1) Define Rural Market and discuss unique features of rural consumers.
- 2) Describe the various challenges faced by firms in India in respect of rural market with suitable examples.
- 3) Explain different segments of rural markets and discuss the factors affecting their growth in India.
- 4) Define rural marketing and discuss its 4 A's.
- 5) "In order to make their goods and services acceptable to rural consumers the companies need to design their marketing mix carefully." Discuss.
- 6) Describe the emerging trends of rural marketing in India.

<p>Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.</p>
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UNIT 19 EMERGING ISSUES IN MARKETING-I

Structure

19.0 Objectives

19.1 Introduction

19.2 Relationship Marketing

19.2.1 Elements of Relationship Marketing

19.2.2 Advantages and Limitations of Relationship Marketing

19.3 Consumerism

19.3.1 Meaning of Consumerism

19.3.2 Objectives of Consumerism

19.4 Electronic Retailing (E-tailing)

19.5 Marketing on Internet

19.5.1 Meaning and Features

19.5.2 Developing an Internet Program

19.5.3 Advantages and Limitations of Marketing on Internet

19.6 Social Marketing

19.7 Green Marketing

19.7.1 Meaning and Importance

19.7.2 Advantages and Limitations of Green Marketing

19.8 Let Us Sum Up

19.9 Key Words

19.10 Answers to Check Your Progress

19.11 Terminal Questions

19.0 OBJECTIVES

After going through this unit, you will be able to:

- discuss the concept of relationship marketing and explain its importance;
- describe the term consumerism and its impact on marketing decision;
- explain the importance of electronic retailing;
- explain the term marketing on internet and other important concepts associated to it;
- describe social marketing and its elements; and

- discuss the need of green marketing in changing global scenario and concern.

19.1 INTRODUCTION

Marketing is very dynamic in nature. It has been changing very fast. A marketer needs to keep a tab on the changing scenario of the market and tailor his marketing efforts accordingly. Marketing Principles provide a sound base for strategy formulation for the marketers. Several changes have been taking place and the marketers have to cope up with new strategies to deal with them. As a result, new trends in marketing have been emerging. As a learner of marketing it is important to understand the emerging and current issues of marketing. In this unit, you will learn important emerging marketing issues and concept with their respective advantages and limitations.

19.2 RELATIONSHIP MARKETING

The main objective of marketing is to create strong and lasting relationships with a core group of customers by making them feel good about the company products and services. Marketers accomplish this by promising and delivering high-quality products and services.

Relationship marketing aims at developing strong economic, technical and social ties with the stakeholders. The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network. A marketing network consists of the company and its supporting stakeholders (customers, employees, suppliers, distributors, retailers, ad agencies, and others) with whom it has built mutually profitable business relationships. In the long run, the competition is not between companies but between marketing networks, the company which develops better network may run business smoothly. The cardinal principle is simple: Build an effective network of relationships with key stakeholders, and profits will follow.

Many firms have established relationship-marketing programs aiming at creation of loyal customers. A review of the composition of 66 consumer relationship-marketing programs revealed three elements shared by more than 50 percent of the programs. They are: (1) fostering ongoing communication with customers (73% of the programs), (2) furnishing loyalty by building extras like upgrades and other perks (68% of the programs), and (3) stimulating a sense of belonging by providing a "club membership" format (50% of the programs). Relationship marketers offer loyal customers special services, discounts, increased communications, and attention beyond the core product or service, without expecting an immediate payback. However, they hope that, over time, they will reap the advantages of sustained and increasing transactions with a core group of loyal customers.

Companies in a wide variety of product and service categories are practicing relationship marketing, in the recent years. Many companies call their relationship programs a club and some even charge a fee to join. Membership in a club may serve as a means to convey to customers the notions of permanence and exclusivity inherent in a "committed relationship". Members of these clubs receive on a regular basis journals and newsletters, gifts, and variety of other materials. Airlines and major hotel chains, in particular, use relationship-marketing techniques. They award points to frequent customers that can be used to obtain additional goods or services from the company.

Ultimately, it is to a firm's advantage to develop long-term relationship with existing customers. It is easier and less expensive to make an additional sale to an existing customer than to make a new sale to a new customer. However, the effort involved for the firm in developing and maintaining a customer relationship must be weighed against the expected long-term benefits. Marketers must determine the "lifetime value" of a customer to ensure that the costs of obtaining, servicing, and communicating with the customers do not exceed the potential profits. Some of the possible benefits of a successful relationship marketing program are repeat purchases, "extra" loyalty of the consumers, goodwill, positive word-of-mouth, lower promotional costs for the firm, and so on.

19.2.1 Elements of Relationship Marketing

The relationship-marketing program incorporates the following three key elements:

- 1) Identifying and building marketing databases of potential and present customers:** In relationship marketing, the customer database is a very important strategic asset for manufacturers. Advertisers need to use mass media and more targeted media channels as ways of prospecting for customers. Once potential customers have been identified, advertisers must capture their names and information on their lifestyles in a database for future communications. It is important to keep in mind that not all consumers are appropriate target for relationship marketing, and not all targets are customers. Consequently, the initial database must be carefully refined and segmented. Designed and developed properly, the marketing database will allow companies to expand their internal capabilities to include relationship marketing. Most of these databases can be developed using secondary data. Company must make intensive effort in the preparation of existing and potential customer's list. The list must be analysed and scrutinized on the regular basis for the finalisation of the database.
- 2) Deliver differentiated messages to targeted households:** Advertisers try to communicate with a defined audience of the existing and potential users of their products. The media choices they make must therefore offer the ability not only to broadcast the message to the entire

circulation or audience, but also to target precisely defined demographic segments. Print, broadcast and social media have been extensively used for communicating the messages. For advertisers, more precise targeting means greater impact. Mass circulation magazines are responding to advertisers' needs with selective binding and personalized inkjet printing. Broadcast media are also relinquishing their positions as passive media. Telemarketing innovations will allow broadcast media to become increasingly interactive. At the same time, addressability will become an important factor in both cable and broadcast.

- 3) **Track the relationship to make media expenditures more effective and more measurable:** The media innovations will allow advertisers to pinpoint what works and what does not work. Consequently, relationship marketing's most important effect will be a shift in the way decisions are made about where to advertise. Traditionally, decisions have been based on various ex ante measures of exposure, such as cost-per-thousand, audience, or circulation. In the future, however, decisions will be made on ex post factors, such as evidence of penetration of the required target audience or even evidence of sales results. In this new environment, the basis of measurement changes and emphasis will shift from cost-per-thousand to the value of reaching a target market. Advertisers must evaluate the cost of gaining and maintaining a customer's relationship over several years. Once again, marketing research will play a significant role in this phase of relationship marketing program. Tracking usually will be done by survey research. The various statistical tools necessary to process the information in the database may be used.

19.2.2 Advantages and Limitations of Relationship Marketing

Advantages: Listed below are the few advantages of relationship marketing:

- **Long term relationship:** By using IT, relationship marketing can ensure that customer needs are met and marketing efforts are more effective. In turn, this will help firms cultivate and maintain long-term relationships with their customers.
- **Customer Loyalty:** Companies that use relationship marketing strategies, offer exclusive benefits to their customers. This helps them in lowering the amount of competition from other marketers who offer similar products, which helps in retaining customers and thus strengthen customer loyalty.
- **Profitability:** Having a good customer experience generates customer loyalty, which, in turn, helps increase profitability as well. In the long run, loyal customers tend to buy in large volumes.
- **Regular Feedback:** When customers develop a relationship with the company, they tend to provide regular feedback on its products and

services. Customer feedback can help the company figure out how to improve products or services.

- **Word of Mouth advertising:** At the heart of successful relationship marketing is its ability to spread positive word-of-mouth recommendations about the product by satisfied customers.

Limitations: Listed below are the few limitations of relationship marketing:

- **High Cost:** Recruiting and training employees are generally the cause of the high cost of relationship marketing. Thus, it contributes to the additional costs of the organization.
- **Not suitable for all business models:** It also doesn't work with all business models. For example, if you sell a product that most people will only buy once, then it might have little effect.
- **Ignorance of New Customers:** A business is primarily concerned with retaining and supporting their current customers in relationship marketing. This causes new customers to be overlooked and possibly ignored.

19.3 CONSUMERISM

Consumerism is simply protecting or promoting the rights and interests of the customers/consumers. The term consumerism came into existence in 1960s explaining the consumers' movement against unfair business/marketing practices by the producers or marketers. When the Industrial Revolution took place, mass production was there. Focus of the marketers was on producing and distributing goods on large scale. Quality of products was given less importance. This led to generating and imposing a threat to the customers that once they purchased commodity, it is their luck and headache whether the product that they have purchased is of good quality or not or it is according to their expectations or not. This kind of behaviours left the consumers grievances and complaints unattended. There was no authority to listen to complaints of the consumers. There were no laws stating the rights of the consumers. This led to emergence of protest of consumers against producers or marketers. Gradually, law enforcements were enacted to protect the interest of the consumers and their rights were stated in the law. The market witnessed a shift from "Buyer Beware to sellers Beware and government intervened to ensure consumer's right to safety, the right to be informed, the right to choose, the right to be heard, the right to redress and right to represent.

19.3.1 Meaning of Consumerism

Consumerism is a social force designed to protect the consumers' interest. It allows consumers to protest against unfair business practices such as misbranding, spurious products, unsafe products, product adulteration, unfair

pricing, deceptive packaging, misleading and false advertising, black marketing, quantity related aspects of the products, defective warranties, incomplete information of the products etc. Thus consumers demand for primarily four rights from the marketers or producers, viz., Safe products, full and accurate information about products and services, Informative communication and redressal of their complaints.

Consumerism can be defined as the consumers 'demand to make the marketing practices more truthful, honest, sincere, informative, responsive, effective and environment friendly so that the quality of life of consumers can be ensured and depletion of natural resources of the society can be stopped (i.e, demanding the conservation of natural resources). Hence, we can say that consumerism demands for socially responsible marketing.

According to Peter F. Drucker, consumerism is "product-oriented marketing." He believed that Consumer protection or consumerism will be redundant if business sincerely practices marketing concept, viz. customer-oriented marketing philosophy. He emphasized that consumerism challenges four important premises of the marketing concept-

- 1) It is assumed that consumers know their needs.
- 2) It is assumed that business really cares about those needs and knows exactly how to find about them.
- 3) It is assumed that business does provide useful information that precisely matches product to needs.
- 4) It is presumed that products and services really fulfill customer expectations as well as business promises.

Consumerism, compels marketers to be more informative, more effective, more truthful and more responsible towards not only the consumers but the society as a whole that take care of the environmental concerns of the mother earth.

19.3.2 Objectives of Consumerism

Following are the objectives of consumerism:

- 1) To ensure consumers' satisfaction
- 2) To remove post purchase concerns, doubts and anxiety of consumers
- 3) To educate consumers about their rights
- 4) To provide detailed information to the customers about the products or services
- 5) To ensure fair practices by the producers/marketers
- 6) To ensure that the companies are taking care of the environmental concerns

Keeping this in mind consumer protection is given importance and this issue has occupied a place in Indian Legislation as well. Several laws have been enacted to protect the rights and interest of the consumers. The term “consumerism” is now an established term. If marketers are not giving ears to the consumers’ complaints law takes care of it. ‘Consumer Protection Act’ is an example of it. It covers six consumers rights viz., (i) Right to safety, (ii) Right to be informed, (iii) Right to choose, (iv) Right to be heard, (v) Right to redress, and (vi) Right to consumer education.

We have already learnt in Unit 2, about several laws in Indian legislation that directs and governs the marketers and takes into account the consumers’ concern and welfare.

In our country, the profile of customers are changing so is the style of marketers. Customers are much aware and informed and they expect value for money that they are paying to get a product or service. Marketers are also showing serious concern about delivering the value that the customers are expecting, to the most and earn customer delight and not only satisfaction. Warning messages on the products that are hazardous to health such as cigarette is an example of established consumerism in India. Marketers are considering consumerism as a promising opportunity to build their relationship with the customers and the society, thus, enabling a win-win situation for both customers and companies. It is because of consumerism that market is witnessing a paradigm shift From CAT (Customers are Things) to CARE (customers are really everything) to SCARE (Society and Customers are really everything).

However, if we talk of rural consumers, they are still vulnerable to marketers’ malpractices because of their illiteracy, negligence and innocence. Therefore, to have an effective consumer protection all the three parties; the marketer, the consumers and the government, have to play their role honestly and diligently.

19.4 ELECTRONIC RETAILING (E-TAILING)

We have already learnt about retailing in previous unit in detail. When the activity of retailing is done through electronic media it is called electronic retailing which is popularly called as **e-tailing**. Therefore, we can say, e-tailing is sale of goods and services through electronic media. It includes Business to Business (B2B), Business to Consumers (B2C), Consumers to Business (C2B) and Consumer to Consumer (C2C) sale of goods and services.

In electronic retailing the business communicate and transact directly with their audience (Customers) without any intermediaries. There can be two types of e-tailing.

There are businesses who are only using electronic media for retailing such as amazon. They do not have their physical outlets or showrooms. On the other hand there are businesses who are using both 'brick and Mortar' (physical) outlets and also reaching their customers through electronic media, for example, Dell. It is basically the subset of e-commerce.

Advantages and Limitations of Electronic Retailing (E-tailing)

Advantages of e-tailing: There are many advantages of e-tailing. Few of them are listed below:

- There is no limitation of physical/ geographical boundary. With one click, a customer can order the desired goods and services from anywhere, without stepping out of the doorstep.
- It saves both time and efforts.
- Customers can compare the available products and make more informed choices as a wide range of product is available online.
- Sellers can reach masses without incurring much costs.
- Sellers can acquire new customers through search engine visibility
- Customers can get detail information about the products or services
- Customers can make choices without any interference of the sales people
- Customers can get huge discounts as they can compare same products from different sellers without incurring much efforts and time.
- Customers can get easy payment terms such as POD (pay on delivery), COD (cash on delivery) etc.

Limitations of e-tailing: Listed below are few of the limitations of e-tailing:

- The products may not be the same as they look online, they may vary in colour texture etc.
- Prices are fixed, no bargaining can be done.
- Electronic Payment gateways/ mode can be a risky affair.
- Customers may not touch and feel the product.
- In traditional shopping (going to stores and buying) you get the delivery of the products as soon as you make the payment, whereas, in online shopping you have to wait for the delivery.
- Customer will miss the genuine suggestions offered by the retailers at the time of purchase.
- Emotional/experiential shopping is not possible online. It does not remain a recreation. Traditional method provides the customers with emotional buying.

- Sellers may not enjoy the benefit of impulsive buying, they may miss the opportunity as in case of online shopping customers buy only those specific commodities that they need.
- Sometimes, people may get addicted to online window shopping

Check Your Progress A

1) Fill in the blanks:

- builds strong economic, technical and social ties among the stakeholders.
- The ultimate outcome of relationship marketing is the building of a unique company asset called a
- is a social force designed to protect the consumers' interest.
- is sale of goods and services through electronic media.
- refers to a traditional business that has a physical store where customers makes purchase in person.

2) State whether the following statements are True or False:

- Relationship marketing ignores consumer satisfaction.
- Relationship marketing is not relevant in retail marketing.
- In relationship marketing, the firm focuses as much on managing its customers as on managing its products.
- Consumerism compels marketers to be more informative.
- E-tailing suffers from the limitation of geographical boundaries.

19.5 MARKETING ON INTERNET

Marketing on internet or internet marketing is the new buzzword in the realm of marketing. Internet marketing refers to all the policies and strategies that are used in offering the products and services online and through other electronic/digital media. It includes a wide variety of online platforms such as email marketing, digital marketing, social media marketing etc. Let us now discuss them in detail.

19.5.1 Meaning and Features

The hottest medium going right now seems to be the Internet. The economist points out that no communication medium or electronic technology has ever grown as quickly, not even fax machines and PCs. Some think everyone has discovered this new medium and its opportunities are limitless, others are not

inclined to agree. We will discuss this new medium, its advantages and disadvantages.

The Internet is a worldwide means of exchanging information and communicating through a series of interconnected computers. Started as a U.S Defense Department project, the Internet or information super highway, is now accessible to anyone with a computer and a modem.

The following are the some of the features of the Internet:

Feature	Use
Electronic mail (e-mail)	Allows users to send electronic mail anywhere in the world
Usenet	Discussion groups, newsgroups, and electronic bulletin boards, similar to those offered by online services.
Telnet	Online databases, library catalogs, and electronic journals at hundreds of colleges and public libraries.
File transfer protocol (ftp) or hypertext transfer protocol (http)	The ability to transfer of files from one mainframe computer to another.
Client server	Allows for the transfer of files from one mainframe computer to another.
Gopher	A document retrieval system used to search for information.
Wide area information server (WAIS)	Enables one to use keywords in specific database and retrieve full text information.
World Wide Web (WWW)	Does much the same thing as gopher and WAIS, but combines sound, graphic images, video and hypertext on single page.

While the Internet offers a variety of services to users, the most powerful and popular is the World Wide Web (WWW), commonly referred to as the Web. In fact, many use the terms Internet and World Wide Web synonymously. For marketers, a number of Internet features offer potential, but it is the Web that has developed as the commercial component. First, however, it would be useful to examine some of the Internet terminology.

19.5.2 Developing an Internet Program

Like other media, using the Internet wisely also requires development of a plan. This plan should consider target audiences (users of the Net) as well as specific objectives and strategies and a way to measure effectiveness.

Web Participants: The Web, like other media, has both advertisers and potential customers. Unfortunately, the actual degree of use and profiles of these groups is extremely difficult to determine.

- **Advertisers**
- **Users**

While the exact profiles of advertisers and users of the Web may be difficult to obtain, most marketers remain optimistic about the potential for communicating with and selling to consumers.

Web Objectives: The Web offers marketers an excellent opportunity to sell their products directly to the consumers. Thus, one of the primary objectives of advertising on the Internet is to generate sales directly. Advertisers on the Internet may have additional objectives in mind, including the following:

- The website is an excellent place to provide in-depth information about a company's products and/or services.
- Advertising on the Web can be useful in creating awareness of an organization in general as well as its specific product and service offerings.
- The Web has been used by marketers to gain audience profile information to determine their preferences, buying habits, and so on.
- The website may be designed to project the image of an organization or company.
- Some websites offer electronic coupons to attempt to stimulate trial of their offering.
- The Web has the capabilities to move customers and prospects through successive stages of the buying process.

Web Strategies: Web advertising may take place through the use of display banners and the establishment of a website that provides more extensive information about the company or organization. Some of these are used to stimulate sales directly, while others serve other communications objectives. Procter and Gamble is increasing its ad expenditure in this area, and both McDonald's and Disney have established websites to reach the children's market. Having a website does not, in itself, guarantee a successful communications programme.

While the website can be valuable in providing information and even in making the sale, consumers must first be attracted to the site. A number of companies are now experimenting with a strategy of "web casting"-pushing out site information to Web users rather than waiting for them to find the site on their own.

Audience Measurement on the Internet: At least part of the problem in defining the Internet user is due to the infancy of this medium. In all media,

audience measurement providers have become involved only after the medium has achieved a significant role in the marketplace. As Internet providers develop their offerings, audience data will improve. Several sources of audience information are now available. Among them the following are some instances:

- *Nielsen Media Research and Commerce Net* conduct surveys to determine Web demographics and usage characteristics.
- *IntelliQuest* conducts surveys of Web users to provide demographic, lifestyle, and usage information.
- *PC-Meter, a metering service*, measures how much time computer users spend at their machines, what software and online services they access, and how long they spend online. It also provides demographic data.
- *Audit Bureau of Circulations*, a print agency, is developing a product called WebFacts to certify Web counts.
- *Simmons Market Research Bureau* provides viewership profiles of the Internet and other interactive media.

No specific criteria for setting advertising rates or measuring effectiveness of the Web have been agreed on by all advertisers. Since ad rates are determined in part by potential exposures, advertisers have demanded information regarding the potential number of viewers of their banners and websites. However, since there are no accurate figures on viewers, many companies have reservations at this costing method. They argue that the number of people who see a banner is irrelevant and that rates should be based on the number of visitors to a site.

19.5.3 Advantages and Limitations of Internet Marketing

Advantages: A number of advantages of advertising on the web can be cited as follows:

- **Target Marketing:** A major advantage of the web is the ability to target very specific groups of individuals with a minimum of waste coverage.
- **Message Tailoring:** As a result of precise targeting, messages can be designed to appeal to the specific needs and wants of the target audience.
- **Interactive Capabilities:** The interactive nature of the Web leads to a higher degree of customer involvement.
- **Information Access:** Once users visit the website, they can garner a wealth of information regarding product specifications, purchase information, and more.
- **Sales Potential:** Because this is a direct-response medium, the ability to generate sales is high.

- **Creativity:** Proper design of a website can lead to repeat visits and generate interest in the company as well as its products and services. Banners and websites can be changed frequently to stimulate interest.
- **Market Potential:** As household penetration of PCs increases and awareness as well as interest in the Net continue to grow, the market potential will continue to increase.

Limitations: The following are some of the limitations of Internet marketing:

- **Measurement Problems:** Due to the novelty of this medium, sophisticated and universally adopted measures of audience and effectiveness have not yet been established.
- **Audience Characteristics:** It is difficult to measure exact characteristics of Web users.
- **Web Snarl:** A major complaint associated with the Web is the time required to access information. As more and more people enter the web, this problem will get worse. There are already indications of high dropout rates due to the slowness of the Net.
- **Clutter:** As the number of ads proliferates, the likelihood of one ad being noticed drops. E-mail is already experiencing floods of marketing related communications.
- **Costs:** Many advertisers believe the Web is an effective medium for high-ticket items but less efficient for lower-priced consumer products like soups and candies. Relatively high costs of advertising and delivery limit the Web's appeal.

19.6 SOCIAL MARKETING

Social Marketing is "the application of marketing technologies developed in the commercial sector to the solution of social problems where the bottom line is behavior change." It involves: *"the analysis, planning, execution and evaluation of programs designed to influence the voluntary behavior of target audiences to improve their personal welfare and that of society."*

This definition highlights the fact that social marketers differ from other marketers in that they take a prescriptive, focused ethical stance toward what the outcomes of their efforts should be. Social marketers constrain themselves to trying to influence behaviors that contribute to individual and collective welfare. Specification of what constitutes that individual and collective welfare is usually derived from the professional standards and norms of the arena of impact.

The concept of social marketing emerged in the 1970s, when Philip Kotler and Gerald Zaltman realized that the same marketing principles that were being used to sell products to consumers could be used to "sell" ideas,

attitudes and behaviors. Kotler and Andreasen defined social marketing as "differing from other areas of marketing only with respect to the objectives of the marketer and his or her organization. Social marketing seeks to influence social behaviors not to benefit the marketer, but to benefit the target audience and the general society." This technique has been used extensively in international health programs, especially for contraceptives and oral rehydration therapy (ORT), and is being used with increasing frequency in many countries of the world including India for such diverse topics as drug abuse, heart disease, equality of female child, prohibition of liquor, national integration, planned small families and organ donation. The key to a successful social marketing campaign is learning.

The following 4Ps of Marketing are equally relevant in Social Marketing also:

- 1) **Product:** The social marketing "product" is not necessarily a physical offering. A continuum of products exists, ranging from tangible, physical products, to services, practices and finally, more intangible ideas. In order to have a viable product, people must first perceive that they have a genuine problem, and that the product offering is a good solution for that problem. The role of research here is to discover the consumers' perceptions of the problem and the product, and to determine how important they feel it is to take action against the problem.
- 2) **Price:** "Price" refers to what the consumers must do in order to obtain the social marketing product. This cost may be monetary, or it may instead require the consumer to give up intangibles, such as time or effort, or to risk embarrassment and disapproval. If the costs outweigh the benefits for an individual, the perceived value of the offering will be low and it will be unlikely to be adopted. However, if the benefits are perceived as greater than their costs, chances of trial and adoption of the product is much greater.
- 3) **Place:** "Place" describes the way that the product reaches the consumers. For a tangible product, this refers to the distribution system—including the warehouse, transport, sales force, retail outlets where it is sold, or places where it is given out for free. For an intangible product, place is less clear-cut, but refers to decisions about the channels through which consumers are reached with information or training. This may include doctors' clinics, shopping malls, mass media vehicles or in-home demonstrations. Another element of place is deciding how to ensure accessibility of the offering and quality of the service delivery. By determining the activities and habits of the target audience, as well as their experience and satisfaction with the existing delivery system, researchers can pinpoint the most ideal means of distribution for the offering.

- 4) **Promotion:** Finally, the 4th "P" is promotion. Because of its visibility, this element is often mistakenly thought of as comprising the whole of social marketing. Promotion consists of the integrated use of advertising, public relations, promotions, media advocacy, personal selling and entertainment vehicles. The focus is on creating and sustaining demand for the product. Research is crucial to determine the most effective and efficient vehicles to reach the target audience and increase demand. The primary research findings themselves can also be used to gain publicity for the program at media events and in news stories.

Additional 3Ps of Social Marketing are the following:

- 5) **Publics:** Social marketers often have many different audiences that their program has to address in order to be successful. "Publics" refers to both the external and internal groups involved in the program. External publics include the target audience, secondary audiences, policymakers and gatekeepers, while the internal publics are those who are involved in some way with either approval or implementation of the program.
- 6) **Partnership:** Social issues are often so complex that one agency cannot make a dent by itself. There is a need to team up with other organizations in the community to really be effective. You need to figure out which organizations have similar goals to yours (not necessarily the same goals) and identify ways you can work together.
- 7) **Policy:** Social marketing programs can do well in motivating individual behavior change, but that is difficult to sustain unless the environment they are in supports that change for the long run. Often, policy change is needed, and media advocacy programs can be an effective complement to a social marketing program.

19.7 GREEN MARKETING

The environmental issues have received a great deal of discussion in marketing. Terms like "Green Marketing" and "Environmental Marketing" appear frequently in the popular press. Many governments around the world have become so concerned about green marketing activities that they have attempted to regulate them.

Green marketing came into prominence in the late 1980s and early 1990s. Green marketing incorporates a broad range of activities, including product modification, changes to the production process, packaging changes, as well as modifying advertising. Yet defining green marketing is not a simple task. Indeed the terminology used in this area has varied, it includes: Green Marketing, Environmental Marketing, and Ecological Marketing etc.

Green Marketing or Environmental Marketing or Ecological Marketing consists of all activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of these

needs and wants occurs, with minimal detrimental impact on the natural environment. This definition incorporates much of the traditional components of the marketing definition that is "All activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants." Therefore it ensures that the interests of the organization and all its consumers are protected, as voluntary exchange will not take place unless both the buyer and seller mutually benefit. The above definition also includes the protection of the natural environment, by attempting to minimize the detrimental impact this exchange has on the environment.

Green Products Vs Organic Products

Another term which is gaining importance now a days is Organic Product. A sudden increase in demand of organic products is witnessed. Now the question is- what is organic product? Any product (food or animal product) which is produced without using any chemicals or synthetic pesticides, fertilizers or other genetically modified components, growth hormones, antibiotics, is called organic products. Considering the health hazards with the use of products that are produced using chemicals or man-made adulterations, people are now giving preference to organic products.

Many a time, the terms '**Organic**' and '**Green**' are used interchangeably. This is not true. There is a difference between green products and organic products. As discussed above, Green product are those products which are produced with a method or technology that avoids environmental hazards, whereas, organic products are products that are produced without using any type of chemicals or synthetic component. No product can be purely green (hundred percent) as there is always some degree of impact on the environment. On the contrary, a product can be totally and completely organic. Thus, all organic products are environment friendly, hence green but not all green products are organic.

19.7.1 Importance of Green Marketing

The question of why has the importance of green marketing increased is quite simple. Mankind has limited resources on the earth, with which she/he must attempt to provide for the worlds' unlimited wants. In market societies where there is "freedom of choice", it has generally been accepted that individuals and organizations have the right to attempt to have their wants satisfied. As firms face limited wants. Ultimately green marketing looks at how do marketing activities utilize these limited resources, while satisfying consumers wants (both of individuals and industry), as well as achieving the selling organization's objectives. There are several reasons for increased use of Green Marketing by firms. Following are the five possible reasons:

- 1) **Opportunities:** It appears that all types of consumers, both individual and industrial are becoming more concerned and aware about the natural environment. In a 1992 study of 16 countries, more than 50% of

consumers in each country (other than Singapore), indicated they were concerned about the environment. Given these figures, it can be assumed that firms marketing goods with environmental characteristics will have a competitive advantage over firms marketing non-environmentally responsible alternatives. There are numerous examples of firms who have strived to become more environmentally responsible, In an attempt to better satisfy their consumer needs.

- 2) **Social Responsibility:** Many firms are beginning to realize that they are members of the wider community and therefore must behave in an environmentally responsible fashion. This translates into firms that believe they must achieve environmental objectives as well as profit related objectives. This results in environmental issues being integrated into the firm's corporate culture.
- 3) **Governmental Pressure:** In all marketing related activities, governments want to "protect" consumers and society; this protection has significant green marketing implications. Governmental regulations relating to environmental marketing are designed to protect consumers in several ways:
 - Reduce production of harmful goods or by-products;
 - Modify consumer and industry's use and/or consumption of harmful goods;
 - Ensure that all types of consumers have the ability to evaluate the environmental composition of goods.

Governments establish regulations designed to control the amount of hazardous wastes produced by firms. Many by-products of production are controlled through the issuing of various environmental licenses, thus modifying organizational behavior.

- 4) **Competitive Pressure:** Another major force in the environmental marketing area has been firms' desire to maintain their competitive position. In many cases firms observe competitors promoting their environmental behaviors and attempt to emulate this behavior. In some instances this competitive pressure has caused an entire industry to modify and thus reduce its detrimental environmental behavior. For example, it could be argued that Xerox's "Revive 100% Recycled paper" was introduced a few years ago in an attempt to address the introduction of recycled photocopier paper by other manufacturers.
- 5) **Cost or Profit Issues:** Firms may also use green marketing in an attempt to address cost or profit related issues. Disposing of environmentally harmful byproducts, such as polychlorinated biphenyl (PCB) contaminated oil are becoming increasingly costly and in some cases difficult. Therefore, firms that can reduce harmful wastes may incur substantial cost savings. When attempting to minimize waste, firms are

often forced to re-examine their production processes. In these cases they often develop more effective production processes that not only reduce waste, but reduce the need for some raw materials. This serves as a double cost savings, since both waste and raw material are reduced.

19.7.2 Advantages and Limitations of Green Marketing

Advantages: Listed below are the few advantages of green marketing:

- **Access to New Markets:** Marketers have access to a completely new consumer base, which purchases green products rather than non-green products.
- **Competitive advantage:** Those companies that prioritize sustainable business practices and promote environmentally-conscious products and services enjoy an edge over their competitors.
- **Goodwill:** Green marketing aims at bringing attention to environmental issues so that a company's corporate image can become more considerate and responsible, boosting its goodwill.
- **Economic advantage:** Company uses marketing practices that utilize fewer resources, such as use of eco-friendly equipment in production and sending electronic catalogues and newsletters to advertise rather than print advertisement. As a result, operating costs are reduced and more savings are realized.
- **Environment-friendly:** Making the earth a beautiful and healthy planet is one of the goals of green marketing. By integrating the environmental objectives with the company's objectives, a company can behave responsibly and fulfil its duties towards the betterment of the community.

Limitations: Listed below are the few limitations of green marketing:

- **High cost:** To go green, a company would need to invest significantly in research and development. Moreover, eco-friendly products require materials that are renewable and recyclable, which are costly.
- **Difficult to implement:** For companies to market their products as "green," they must obtain environmental certifications, which can be time consuming and expensive.
- **Resistance by customers:** Often, customers refuse to buy natural products because they are more expensive than normal products.
- **Lack of awareness:** Many people are not aware of green products and their uses. The process of informing customers about the benefits of green marketing is in itself a challenge.
- **False claims:** A product simply labelled 'green' or 'eco-friendly' isn't inherently eco-friendly. Companies sometimes misrepresent their

products as green even when it's not. This practice is known as 'green washing'.

Check Your Progress B

1) Fill in the blanks:

- i) campaign has been used extensively in topics like drug abuse, equality of female child, prohibition of liquor.
- ii) is an all-inclusive term for marketing products and services online.
- iii) refers to both the external and internal groups involved in the social marketing program.
- iv) A is a collection of related webpages located under a single domain name.
- v) aims at the satisfaction of humans' needs and wants, with minimal detrimental impact on the natural environment.

2) Match the following:

List A List B

- | | |
|---|-----------------------|
| i) The ability to transfer files from one mainframe computer to another. | a. Organic product |
| ii) Products that are produced without using any type of chemicals or synthetic component. | b. Social marketing |
| iii) Products which are produced with a method or technology that avoids environmental hazards. | c. Internet marketing |
| iv) Influence behavior of target audience. | d. FTP |
| v) Use of web technologies | e. Green products |

19.8 LET US SUM UP

Market is very dynamic in nature. A marketer needs to keep a tab on the changing scenario of the market and tailor his marketing efforts accordingly. Marketing Principles provide a base for strategy formulation but there are no hard and fast rules. Therefore, after considering and analyzing changing market scenario, new marketing styles and strategies keep on emerging.

Relationship marketing builds strong economic, technical and social ties among the stakeholders. It cuts down on transaction costs and time. In most successful cases, transactions move from being negotiated each time to being

a matter of routine. The ultimate outcome of relationship marketing is the building of a unique company asset called a marketing network.

Consumerism is a social force designed to protect the consumers' interest. It allows consumers to protest against unfair business practices such as misbranding, spurious products, unsafe products, product adulteration, unfair pricing, deceptive packaging, misleading and false advertising, black marketing, quantity related aspects of the products, defective warranties, incomplete information of the products etc. Thus consumers demand for primarily four rights from the marketers or producers, viz., Safe products, full and accurate information about products and services, Informative communication and redressal of their complaints.

When the activity of retailing is done through electronic media it is called electronic retailing which is popularly called as e-tailing. E-tailing is sale of goods and services through electronic media. In electronic retailing the business communicates and transact directly with their audience (Customers) without any intermediaries. There can be two types of e-tailing.

Internet marketing refers to all the policies and strategies that are used in offering the products and services online and through other electronic/digital media. It includes a wide variety of online platforms such as email marketing, digital marketing, social media marketing etc.

The concept of social marketing emerged in the 1970s. Social marketing seeks to influence social behaviors not to benefit the marketer. It benefit the target audience and the general society. This technique has been used extensively in international health programs, especially for contraceptives and oral rehydration therapy (ORT), and is being used with increasing frequency in many countries of the world including India for such diverse topics as drug abuse, heart disease, equality of female child, prohibition of liquor, national integration, planned small families and organ donation. The key to a successful social marketing campaign is learning.

Green Marketing or Environmental Marketing or Ecological Marketing consists of all activities designed to generate and facilitate any exchanges intended to satisfy human needs or wants, such that the satisfaction of these needs and wants occurs, with minimal detrimental impact on the natural environment. Mankind has limited resources on the earth, with which she/he must attempt to provide for the worlds' unlimited wants. In market societies where there is "freedom of choice", it has generally been accepted that individuals and organizations have the right to attempt to have their wants satisfied. As firms face limited wants. Ultimately green marketing looks at how marketing activities utilize these limited resources, while satisfying consumers wants (both of individuals and industry), as well as achieving the selling organization's objectives.

19.9 KEY WORDS

Consumerism: Consumer's demand to make the marketing practices more truthful, honest, sincere, informative, responsive, effective and environment friendly so that the quality of life of consumers can be ensured and depletion of natural resources of the society can be stopped.

E-tailing: Retailing done through electronic media.

Green Marketing: This is also referred to as Environmental Marketing or Ecological Marketing. Green Marketing consists of all activities designed to generate and facilitate any exchange intended to satisfy human needs or wants, such that the satisfaction of those needs and wants occur with minimal detrimental impact on the natural environment.

Internet marketing: The policies and strategies that are used in offering the products and services online and through other electronic/digital media.

Relationship Marketing: The process of creating, maintaining and enhancing strong value laden relationships with customers and other stakeholders.

Social Marketing: Designing, implementing and controlling of programmes seeking to increase the acceptability of a social idea, cause or practice among a target group.

19.10 ANSWERS TO CHECK YOUR PROGRESS

A. 1. i. Relationship marketing ii. Marketing network iii. Consumerism iv. E-tailing v. Brick and mortar

2. i. False ii. False iii. True iv. True v. False

B. 1. i. Social marketing ii. Internet marketing iii. Public iv. Website v. green marketing

2. i. d ii. a iii. e iv. b v. c

19.11 TERMINAL QUESTIONS

- 1) Explain the concept of Relationship marketing. Discuss its main elements.
- 2) What is social marketing? Explain the components of social marketing mix.
- 3) Define Green marketing. Describe the reasons for the growing importance of green marketing.
- 4) "Marketing on the internet requires development of a plan which should consider users, objectives, strategies and measurement." Discuss.

- 5) Define the term e-tailing. Discuss the advantages and limitations of e-tailing.
- 6) “Consumerism is a social force designed to protect the consumer’s interest”. Discuss.

<p>Note: These questions will help you to understand the unit better. Try to write answers for them. But do not submit your answers to the University for assessment. These are for your practice only.</p>

UNIT 20 EMERGING ISSUES IN MARKETING-II

Structure

20.0 Objectives

20.1 Introduction

20.2 Digital Marketing

20.2.1 Tools of Digital Marketing

20.2.2 Advantages and Limitations of Digital Marketing

20.3 Face to Face Marketing

20.4 Experiential Marketing

20.5 Internal Marketing

20.6 Location Based Marketing

20.7 Augmented and Virtual Reality Marketing

20.8 Direct Marketing

20.9 Let Us Sum Up

20.10 Key Words

20.11 Answers to Check Your Progress

20.12 Terminal Questions

20.0 OBJECTIVES

After going through this unit, you shall be able to:

- explain the concept of digital marketing;
- describe the advantages and disadvantages of digital marketing;
- explain the importance of face to face marketing in present scenario;
- analyse the advantages and limitations of face to face marketing;
- discuss with the meaning and feature of experiential marketing;
- explore the advantages and disadvantages of experiential marketing;
- analyse the need of internal marketing in an organization;
- discuss the emergence of location based marketing;
- describe the merits and limitations of location based marketing;
- explore the concept of augmented and virtual reality marketing;
- discuss the meaning and need of direct marketing; and
- examine the effect of direct marketing.

20.1 INTRODUCTION

World has witnessed the changing face of marketing environment from time to time. This has changed the fate and style of marketing. There has been a paradigm shift in the marketing and different concept of marketing has been evolved. The advent of Information Technology revolution has brought major changes in the practices and behavior of the marketer. It has also impacted the consumption pattern, behavior and shopping style and preferences of the consumers. Outbreak of Corona Virus in the year 2019 has further stamped the increasing role of IT in marketing practices. This has changed the face of marketing and different concept and style of marketing have been adopted. In this unit, we will learn about the concept, merits, and limitations and need of digital marketing, face to face marketing, experiential marketing, internal marketing, location based marketing, augmented and virtual reality marketing and direct marketing.

20.2 DIGITAL MARKETING

When marketing is done through internet and other digital platforms (such as the radio, television, mobile applications, social media, web-applications, search engines, websites etc) it is called digital marketing. In Digital marketing, use of electronic devices is made. This marketing can be done online as well as offline.

Offline Digital Marketing

When marketing is done using electronic devices where internet connection is not required, such as radio, television, phone etc., it is called offline digital marketing. This can also be called as enhanced offline marketing. For example we often get messages or promotional calls on our mobile phones to promote a product or services. Another examples would be electronic or digital/LED billboards, that is installed at public places displaying digital images that are changed by a computer every few seconds. They have visual appeal and attract the public. Telemarketing is also very popular. In the current pandemic situation awareness and caution are also being created over phones. Every time you make a phone call, a message is conveyed regarding precautions to be taken and importance of getting corona vaccination. This all comes in the ambit of offline digital marketing.

Online Digital Marketing

When marketing is done using electronic /digital devices that requires internet connection, it is called online digital marketing. For digital marketing, marketer needs to acquire some assets necessarily. Marketers require to prepare or develop following resources for online digital marketing:

- Website
- Logos, icons
- Video advertisement
- Product demonstration
- Product/service images
- E-contents/ blogs/Vooks/testimonials etc
- Reviews of the purchaser/users
- Social media pages such as Facebook page, Twitter page etc

20.2.1 Tools of Digital Marketing

In Online /Digital Marketing, there are several tools that are used. Let us discuss those briefly.

Search Engine Optimisation (SEO): When you search something on internet, you can see some information or websites, few at the top on the first page. Search engine optimization is the process of designing and managing content in a way that it appears amongst the top few on the internet when someone is searching on internet. While creating content, marketers have to choose keywords that are most popular. SEO manages both the quality and quantity of traffic on the website. If the manager has optimised the search engine content, her brand(s) would appear immediately on the website. However, SEO is an expensive tool. You need to hire an expert who can create SEO to increase the online visibility of your products or services.

Pay Per Click (PPC): In this marketing strategy, marketer pays for every users who clicks the advertisement when he opens a page. Marketers advertise their products or services(business offerings) on popular online platforms such as Google, Facebook, Twitter, Instagram etc. When an online visitor visits these pages, advertisements pops up. If the visitor clicks those advertisements, marketer will pay money to these online platforms. In this PPC model, marketer has to pay money per click.

Search Engine Marketing (SEM): In order to increase the visibility of the website in search engine, this search engine marketing style is used. Here, ad space is bought by paying fees in search platforms.

Paid Social Media Advertising: Social media platforms are widely and popularly used across the globe. Most Social media, such as Twitter, Facebook, Snapchat, Instagram, LinkedIn allows marketers to publish and run their advertisements on their respective platforms to communicate about the market offerings to the prospective customers. Marketers have been using these social media platforms. However, these social media platforms charge for running any advertisements. Hence, this involves cost.

Social Media Marketing: Sometimes, marketers create their business pages on social media platforms and promote it amongst the users of those platform. This style does not involve any cost but it may have limited reach vis-à-vis paid social media advertising as only friends can see those pages. It also requires lots of efforts and time. But in the long run it can fetch fruitful results with no cost.

Content Marketing: Marketers, in digital marketing, may use electronic content to reach out to their customers. These e-contents can be in the form of e-books (this is also called as vooks), videos, posts, blogs, images etc. This content stimulates the customers to search for the products, thus their interest is aroused for particular product or services.

Influencer Marketing: There are many popular social media users who have a huge following and viewers. Marketers sometimes, communicate about their market offerings through them.

Email Marketing: This is an oldest form of online marketing or digital marketing. Marketers use this tool to advertise special deals or events.

Besides, there are several other tools too in digital marketing such as **Affiliate marketing** where marketers make a deal with the external websites or agents to promote their market offerings. Since marketers use their referrals it is called affiliate marketing. **Cost- per- click, blogging, Search Engine Result Page (SERPs), Conversion Rate Optimization (CRO), backlinks, Native advertisements etc** are some of the other digital marketing tools.

20.2.2 Advantages and Limitations of Digital Marketing

Advantages: There are many advantages of digital marketing. Few of them are listed below:

- Digital marketing may reach to masses with less effort, cost and time which may be very beneficial to the business.
- Besides, results of digital marketing can be tracked with the help of web analytics and other tools.
- Marketer can analyse whether the marketing efforts are effective or not and how are the customers responding to the promotional efforts.
- With the help of data analytics, marketer can personalize their market offerings and promotional campaigns according to the choice and preference of the customers.
- It also helps in building and managing relationship with the customers. In the previous unit you have learnt that relationship marketing is very important. Through digital marketing that can be done easily.

- Artificial Intelligence is going in a big way.

Limitations: Digital marketing has some limitations as well. Let us discuss them:

- For digital marketing, marketer has to have skilled and trained marketing personnel.
- IT tools change rapidly. Accordingly, they need to upgrade themselves to cope up with the advancements in technology and tools.
- Making digital content also needs skilled professionals and to hire those, companies may have to pay higher prices.
- This also has high competition, as everyone is using digital platforms to market their product offerings.
- Another difficulty in digital marketing is, one bad impression can spread like fire in the jungle as it reaches everyone in no time. If there is any negative feedback or unaddressed complaint posted on digital platforms, it can be devastating for the companies goodwill.
- Besides, there are security and privacy issues too.

20.3 FACE TO FACE (F2F) MARKETING

Face to face marketing is the style of marketing where marketers contact the potential customers directly and makes in-person deal through client meetings, sales events, product demonstrations, in-store visits, interacting events etc. It works on the principle of likeability of human touch and feel amongst individuals. This may be **Formal F2F marketing** or **Informal F2F marketing**. Informal F2F marketing is not planned. Anywhere the marketer meets people, she takes a chance of interacting with them and converting it into a business deal if the person is a potential buyer. For example, if the marketer meets someone at mall and a conversation strikes between them. The shopper asks what do you do professionally and she narrates about her job as a marketing head in a company dealing with the commodity say, Antiques. She further describes about the antique articles that are available. The shopper may take interest and the marketer, if solicited, tries to sell her market offerings to the shopper. This would be called as Informal F2F marketing. The marketer instantly takes advantage of an opportunity to let people know about her business and her market offerings.

There is a formal approach to this style of marketing too. In **Formal F2F marketing**, this meeting is planned and scheduled. For instance, when e-resources are sold to the college libraries, a client meeting is scheduled with the buyers (library) and users (teachers and students) and a presentation is made by the marketing personnel to stimulate and influence them to buy those resources. Marketers might attend trade shows (where a booth or stall

can be set up), Conventions, Chamber of Commerce events etc to promote their market offerings.

There are certain products such as electronic appliances, tablets, personal computers, expensive mobile phones, for which customer usually wants to know more about the product features and benefits by actually visiting the store, discussing with the professionals available there and then make a purchase decision. Unlike while buying groceries, customers actually gladly wait to meet the sales representative there to know more and more about these products. The sales representative gives the customer a personal gesture, crack jokes, offer hospitality to make the customer feel personal touches. Likewise, in F2F marketing that personal feeling is created to attract the customers. Amway, Tupperware, Modicare, Oriflame etc are the companies using F2F Marketing strategies.

Advantages and Limitations of F2F Marketing

There are many benefits of F2F marketing. This strategy is very effective. This has a high conversion rate. The customers feel more connected and safe as they get to speak face to face. They can clear all their doubts and be assured of their purchase decision. The heterogeneity of customers can also be addressed and they can get more personalized products or services. This can earn the loyal customers in the business as chances of giving delight to the customer are high here. It is not to mention that loyal customers bring more customers, thus business to the company that too without any cost. Maintaining and managing customer relationship is the most in this style of marketing. Events and conventions bring customers for the company. Marketers do not have to make castle in the air. They have audience that can be converted into their customers. Effective communication is magical and one can reap the benefits of that.

However, this is expensive so business of all sizes cannot afford it. Besides, sales personnel are very important here. Unless, they have the magical, enchanting communication technique and skill, this would not work. If the audience is very large then the very essence of this style is gone.

Check Your Progress A

- 1) Fill in the blanks:
 - i) When marketing is done using electronic /digital devices that requires internet connection, it is called
 - ii) manages both the quality and quantity of traffic on the website.
 - iii) Under ad space is bought by paying fees in search platforms.

- iv) works on the principle of likeability of human touch and feel amongst individuals.
 - v) Under marketers make a deal with the external websites or agents to promote their market offerings.
- 2) State whether the following statements are **True** or **False**:
- i) Digital marketing means the use of internet enabled platforms only.
 - ii) The act of publishing paid advertisements on social media platforms is termed as social media marketing.
 - iii) Amway is one of the company using F2F Marketing strategies.
 - iv) Content marketing works by offering readers informative and useful material that provide insight and value.
 - v) The results of digital marketing cannot be tracked.

20.4 EXPERIENTIAL MARKETING

We have already discussed it several times in the course that success of any business organisation depends upon how are their target customers experiencing. Every organization, thus, aims at achieving customer delight. To achieve customer delight, the organization needs to be constantly upbeat in making necessary changes in their market offerings (products and services) as per the changing scenario of market taste, preferences and priorities. Besides, the marketer has to be on their toes constantly to build their competitive advantage. For this, they need to render memorable experiences to their customers that would influence their (customer's) brand preferences and their purchase decisions.

On the other hand, customers may not necessarily follow rationality while making purchase decisions. Many a times, their purchase decisions depend upon their instant mood and desire. They look for the brands which create experiences, fond memories, and also something that can satisfy their want with memorable emotional, sensorial and creative experiences. Therefore, marketers now are focusing on creating and delivering real time experiences to the customers, besides, providing them with the market offering that satisfies their want. This style of marketing is known as experiential marketing.

This experiential marketing is done to ensure the customers' emotional attachment to the particular brand. This has gained popularity over the last few years and has become a competitive strategy for many companies in the contemporary era. Marketers now conduct various events and workshop that becomes memorable to the customers. Besides, memorable experiences are also created by allowing the customers to use the products before they actually buy. Once they have personalised and memorable experience, they

are induced to buy the products and advocate it to others too. Demonstrations of the products are also done.

Components of Experiential Marketing

Many experts and researchers have given various foundational elements or components for the framework of experiential marketing. Bernd Schmitt has explained five major components of experiential marketing which are listed below:

- **SENSE** Marketing (Sensual experience): creation of sensory experiences which appeals to the senses through sound, sight, taste, smell and touch. This component is used by those companies, which aim at easy distinction of their products from the available competitors.
- **FEEL** Marketing (Emotional experience): In case of creating inducing impact so that it stimulates the customers to buy the product.
- **THINK** Marketing (Intellectual experience): To create problem solving and cognitive experiences. Companies create curiosity amongst the customer about the product or service.
- **ACT** Marketing (Behavioural experience): In this the physical appearance of the product is designed in a way to influence and enrich the lives of the customers.
- **RELATE** Marketing (Relational experience): Promotional campaign to portray a product in a way that it affiliates with the socio-cultural environment of the customers. For example: Manyavar for wedding and festival clothing.



Figure 1: Components of Experiential Marketing

Advantages and Limitations of Experiential Marketing

Advantages: There are many advantages of experiential marketing. This is not just another buzzword. It uses several tools to create memorable and personalized experience. Conducting some interesting events is one such thing. Few of the advantages are:

- It creates brand awareness amongst the customers. The relationship with the customers is made in such a way that it creates awareness amongst the customers. With the help of social media, a memorable experience is created that not only creates brand awareness but also lasts long in the minds of the customers.
- It enhances the credibility of the companies. A connection that is made to the customers' heart enhances the love and affiliation of the customers for the product. As this marketing style tries to reach the customers in their own comfort zone.
- It creates and ensures positive perception of the products in the minds of the Customers. As all the sensory organs of the customers are pleased and stimulated.
- By allowing the customers to try the product before they buy, it influences the purchase decision of the customers. They are so pleased with the experience that they quickly make buying decision.
- It encourages word-of-mouth publicity. Since the customer has amazing experiences they become brand advocates.
- It can easily be combined/complemented with other marketing strategies without disrupting the old equilibrium.
- It helps in achieving growth target of the companies as loyal customers bring in more and more customers to the business.

Limitations: There are some limitations too of this style of marketing. Let us discuss them quickly:

- It sounds easy but fact is that creating a memorable experience is a very daunting task in itself. If it does not click properly to the customers, it can have a negative impact on the customers too. Customers who are looking for a memorable experience may feel very bad if the experience is not that good.
- It needs adequate financing to use this experiential marketing strategy, as individual attention is to be given to the customers. Companies need to hire skilled professional and train them. This adds the cost.
- Experiences cannot be repeated. Therefore one plan may not work all the time. Marketer may have to plan different and original things.

- It is very hard to measure Return on Investment (ROI). After conducting an event, the marketers may not immediately tell that these many prospective customers will turn into active customers.

20.5 INTERNAL MARKETING

A very famous saying goes like “Charity begins at home”. The same is felt by the marketers. Unless the market offerings are marketed well to their own marketing personnel, it may be very difficult to be marketed to the customers. Therefore, it becomes important to convince the marketing personnel first about the marketing offerings so that they can in-turn communicate to the prospective customers passionately and convince them to make a purchase decision in their favour.

When the company’s objectives, products and services are promoted to the employees within the organization, it is referred as Internal Marketing. This is done to make the employees participate actively to attain the objectives of the organization. This leads in making the employees of the organization as brand advocates. This facilitates in the development of a company’s culture of being a loyal employee of the organization. The loyal employee may does not only work for the financial incentives (salary, commission etc.) but also to fulfill their own responsibility and accountability. This increases the morale of the employees. We have learnt in management classes that higher the morale of the employees, higher shall be the productivity which leads to attainment of company’s goals and objectives.

Thus, internal marketing can be defined as **a continuous process of aligning, motivating and empowering the employees of the company at all management level so that they diligently work to have delighted customers in the business.**

This is done through educating the employees about the company policies, aims and objectives. Employees are encouraged to give their inputs while designing the business strategies. Their criticism are welcomed and worked upon. These activities are performed to convince the employees that they are going to achieve their own set target in the market. Effective internal marketing enables the marketing personnel to increase their customer engagement.

The concept of internal marketing is not new. It came into being long ago but could not gain much importance as different marketing concepts emerged and gained importance due to environmental demands. However, this concept has started gaining importance.

This concept of internal marketing is based on the assumptions that personality and outlook of the employees towards the customers of their business depends upon their own experience in the organization. It is needless to mention that whatever marketing strategies that a company

formulates, the ultimate objective is to give their best performance to make their customers delighted.

Method of implementing internal marketing

Generally, at the time of induction, the employees are briefed about the company's vision and mission, objectives etc. But that is not enough. Depending upon the socio-cultural environment of the business organizations there may be different methods adopted by the organizations for internal marketing. For example in Japan, company songs are written and composed, likewise in educational institutions and universities in India, we have institutions' Kulgeet. These are all done to develop a sense of belongingness amongst the employees. There are different methods of internal marketing. They are listed briefly below.

- Delegating the authority and responsibility to the employees, so that everyone in the organization is contributing their bit to the best of their capabilities.
- Ensuring the adequate financial incentives to the employees.
- Ensuring a conducive work environment.
- Educating the employees about company's policies and objectives.
- Encourage employees for their participation in designing company's policies, goals and objectives.
- Motivate the employees to justify their salaries.
- Conduct training and development program for the employees from time to time.
- Ensure the wellbeing of the employees that encourages them to treat the company as their family.
- Inviting and incentivizing constructive criticism from the employees.
- Appreciate and acknowledge the employees input widely and wholeheartedly.
- Maintaining Effective downward communication so that the company's policies and objectives are clearly communicated to all.
- Maintaining effective leadership and management in the organization.
- Focusing on ensuring and enabling the employees to create work-life balance.

In a nut shell, it can be said that the four most essential areas within the organization, to do internal marketing is (1) Motivation (2) Coordination (3) Information and (4) Education.

Advantages and Limitations of Internal Marketing

Advantages: There are many benefits of having happy employees in the organization. Few of them are listed below:

- Internal marketing encourages the employees to perform better.
- Internal marketing empowers the employees; therefore, they feel more responsible and accountable for achieving the organizational goals and objectives.
- Internal marketing boosts employees' morale which leads to higher productivity.
- Internal marketing brings delighted customer in the organization more and more and increases profitability and credibility of the organisation.
- Internal marketing helps in customer retention.
- Internal marketing ensures better coordination and cooperation among different departments of the business organization.

Limitations: Like everything else, it is also not free from limitations. There are certain limitations too, they are:

- Internal marketing is a costly affair, building up a team of efficient people is not easy. It comes with cost and huge efforts. Training and development programs entails cost and may not always give the desired result.
- Too much thinking into something may be disastrous. Employee's participation in setting company's goals and objectives may not always be a good idea.
- Individual conflicts and conflicts among the department can make the implementation of internal marketing difficult and challenging.

20.6 LOCATION BASED MARKETING

Location based marketing is popular style of marketing that needs to know the location of the customers. It is direct marketing. An alert is sent to the individuals through the mobile device's location, about the market offering available nearby. Using location data, marketers know about the location of the customers and send them online or offline messages regarding the availability of their nearby stores or events. It is helpful at every stage of purchase decision from information to evaluation of the available offerings. Ever since the smart phones have been pocketed with the individual, this style of marketing is gaining much more importance. With the help of artificial intelligence, choice, preference and requirement of the prospects can be known easily. With that information in hand, marketer instantly sends messages to the customer that a product or service which the customer was

seeking is available at a nearby store allowing the customer to purchase the product or service immediately. This way, location based marketing influences the purchase decision of the prospective customer and turns into their brand's favour.

Location Based marketing is also known as geo targeting marketing, geo location marketing, proximity based marketing and hyper local marketing. It is trending widely in developed countries.

Types of location based marketing: There are several ways in location based marketing through which marketer may reach its customers. Let us see few of them:

Use of computer is very common. Every computer or other such devices connected to the internet has an internet protocol address which is widely known as IP address. Location information is also available on computers. Using that location information, marketers reach to their target customers. This is often termed as **IP address Marketing or Geo-targeting**. Likewise, with the help of **Global Positioning Satellites (GPS)** also marketer reaches the customers.

The other popular type of location based marketing is **Geo-fencing**. In this, a boundary is created within a specific area or region. Whosoever enters into that boundary becomes prospective customers and can be reached by the marketers instantly by sending notification or messages. Likewise there are other ways such as Beacon Marketing, Geo-location marketing, Geo-conquesting, Audience targeting etc.

Location Based marketing is gaining popularity as almost everyone owns smart phones now. Smart phones help in the identification of the customers. The marketers may forget them easily. It is very effective in event marketing.

Advantages and Limitations of Location Based Marketing

Advantages: The benefits of Location based marketing are listed below:

- Location based marketing increases in-store-visits as the customers are targeted nearby those stores and becomes easy to make them enter into the store.
- Data can be used to modify the marketing strategies that match the most to the consumer buying behavior.
- This enables to tailor the marketing campaigns and promotional tools to attract customers to the business. This converts the footfalls into sales increasingly.
- This is good and useful for the customers as well, as they are reminded of what were they seeking.

- This style of marketing increases brand awareness and is very cost effective vis-à-vis other methods.

Limitations: There are many such benefits, but there are limitations associated with this too. Let us see them briefly:

- Location based marketing can only be used when the customers are using the location technologies on their phones or computers that are connected to internet. Owing to the privacy issue, many people do not prefer to use this location technology.
- Location based marketing cannot target people who do not have smart phones.
- If the targeting is inappropriate, then this style of marketing may not yield desired results.

20.7 AUGMENTED AND VIRTUAL REALITY MARKETING

When marketers make use of virtual and augmented reality technology to promote their brand it is called as augmented and virtual reality marketing. In this technology a virtual (real life type) environment is created. 3D and 5D movies are an example to this. In this strategy, rather than creating and delivering physical experiences, the experiences are created virtually or with the help of augmented reality technique. It is relatively less costly than the experiential marketing technique. Customers can be targeted on a mass scale as this only requires a smart phone or computer apps. The technique of augmented reality gained popularity with the popular games such as Pokemon Go, Free fire, GTA V Etc. Later on marketer started using this technology to market their products and services. Make up company Sephora was one of the first to popularize augmented reality marketing. Companies are using this technology to allow the customers to try the products virtually before going for actual purchases. A complete view of the products is given.

Service industry, like hotels and resorts, is using this technique abundantly. They give a virtual tour of their premises and provide virtual experiences to the customers to induce them to buy their services. These technologies immerse people into an environment. Marketers create lush, immersive and interactive user experience. Customers feel more close to the products as they are personalized. Few companies that are using this technique is Ikea, Oreo, TOMS shoes, TopShop etc. Companies are developing Apps to engage the customers and giving them experiences to market their products.

Advantages and Limitations of Augmented and Virtual Reality Marketing

Advantages: Advantages of this marketing strategy are as follow:

- It is less costly as this only requires mobile and desktop apps. Once the app is developed, large number of customers can be targeted. Since majority of persons have smart phones, they may be easily contacted. This facilitates in reaching the prospective customers.
- It enables the companies to increase brand awareness.
- It enables the companies to earn customer loyalty by providing a virtual experience of the product or service.
- It expedites the purchasing process.

Limitations: There are some imitations associated with this marketing strategy which are as follow:

- Since it is a real- life- like experience, it may not be that effective. Everybody may not be imaginative to imagine the real experience.
- Initial costs are high. Cost of virtual reality devices is very high. Companies should have enough financial resources to buy these devices.
- People are aware of the potential eye damage by excessive use of electronic devises, especially in the situation like today's pandemic when people are dependent on electronic devises for almost all their personal and professional needs.
- Locomotion sickness is one of the major limitation of Virtual reality technique.
- It is not suitable for all kinds of products which require social interaction.

20.8 DIRECT MARKETING

In urban markets, direct marketing is gaining importance. This is an interactive mode of marketing. In this, marketer reaches out to the target market at any location. You must be aware that the pace, at which Domino's Pizza grew in India after its entry in Indian market after 1996, is unprecedented. One of the reasons of their growth in India is effective implementation of direct marketing strategies. The Direct Marketing Association of USA has defined direct marketing as **'an interactive system of marketing which uses one or more advertising media to effect a measurable response and/or transaction at any location'**.

Direct marketing uses two-way communication model with the customers. For example, when you visit a store or a shopping complex, there are people standing with some forms to be filled up in exchange of some discount coupons. It is done online also in exchange of discount code or promotion code. When the prospective customers fill the form, they are communicating with the marketer. This response is measurable, the number of discount

coupons distributed or codes received, indicates the response rate to the marketers' communication.

Besides, it is not necessary that the customers are interacting with the marketers physically. Interaction can be done through social media messages (such as FB message or whatsapp message) phone, mails, fax etc.

Thus, it is clear that direct marketing has three major elements:

- Interaction or two-way communication,
- Measurable response, and;
- Not location specific

Major objective of Direct Marketing is to get response from the customers. The most important thing which is needed to be able to do direct marketing is Customer data-base. The companies using direct marketing technique need to develop a data-base of the customers. After the database is developed the marketer now starts the interaction with the customers and sales are made. Another important thing in direct marketing is rendering **flawless customer service**. The speed through which the orders are delivered to the customers and the time taken to resolve the complaints of the customers decide the fate of direct marketing.

Few examples are teleshopping, home shopping channels, catalogue marketing, and online shopping.

Advantages and Limitations of Direct marketing

Advantages: Direct marketing is quite an established concept. What is important here is to understand the fact that it is gaining importance in today's time. It has several benefits. Few of them are listed below:

- It allows the marketers to market the products and services directly to the target customers.
- It enables to measure the customers' response quickly.
- It reaches the target customers with more personalised messages.
- It enables the marketers to set realistic goals.
- It is less costly. With a lesser cost maximum profit can be earned.
- It establishes proper interaction with the customer and builds and maintains relationship with them.
- This combined with other loyalty programs may provide better results to the company.

Limitations: Limitations of direct marketing are as follow:

- People may find direct marketing intrusive and annoying. As not everyone may like to get promotional emails or calls especially when they are absorbed in their activities.
- Response rate of direct marketing is very low. This means most of the time and efforts are going waste by contacting the uninterested customers.
- Tools such as telemarketing are costly affair. It may not give the desired return on investment.
- Competition is fierce and it may become difficult for the companies to compete with their competitors' messages.

Check Your Progress B

1) Fill in the blanks:

- i) The marketing style where personalised and memorable experiences are created to induce the customers to buy the product is termed as
- ii) When the company's objectives, products and services are promoted to the employees within the organization it is referred as
- iii) Companies are using to allow the customers to try the products virtually before going for actual purchases.
- iv) Teleshoppings, direct mails, online shopping are some of the tools of
- v) Marketers make use of the customer's to send them online or offline messages regarding the availability of nearby market stores and events.

2) State whether the following statements are True or False:

- i) Experiential marketing is done to ensure the customers' emotional attachment to the particular brand.
- ii) Internal marketing boosts employees' morale which leads to higher productivity.
- iii) Location based marketing reduces in-store-visits.
- iv) The companies using direct marketing technique need to develop a data-base of the customers.
- v) Augmented and virtual reality marketing techniques are not useful for service industry.

When marketing is done through internet and other digital platforms (such as the radio, television, mobile applications, social media, web-applications search engines, websites etc) it is called digital marketing. In Digital marketing, use of electronic devices is made. This marketing can be done online as well as offline.

Face to face marketing is the style of marketing where marketers contact the potential customers directly and make in-person deal through client meetings, sales events, product demonstrations, in-store visits, interacting in events etc. It works on the principle of likeability of human touch and feel amongst individuals.

Experiential marketing is done to ensure the customers' emotional attachment to the particular brand. This has gained popularity over the last few years and has become a competitive strategy for many companies in the contemporary era. Marketers now conduct various events and workshop that becomes memorable to the customers. Besides, memorable experiences are also created by allowing the customers to use the products before they actually buy. SENSE marketing, FEEL marketing, ACT marketing, THINK marketing and RELATE marketing are its components.

When the company's objectives, products and services are promoted to the employees within the organization is referred as Internal Marketing. This is done to make the employees participate actively to attain the objectives of the organization. This leads in making the employees of the organization as brand advocates. This builds a company's culture of being a loyal employee of the organization who do not only work for the financial incentives (salary, commission etc) but also to fulfill their own responsibility and accountability.

Location based marketing is popular style of marketing that needs to know the location of the customers. In this marketing an alert is sent to the individuals through the mobile device's location, about the market offering available nearby. Using location data, marketers know about the location of the customers and send them online or offline messages regarding the availability of their nearby stores or events. It is helpful at every stage of purchase decision from information to evaluation of the available offerings.

The marketers make use of virtual and augmented reality technology to promote their brand in Augmented and Virtual Reality Marketing. In this technology a virtual (real life type) environment is created. In this strategy, rather than creating and delivering physical experiences, the experiences are created virtually or with the help of augmented reality technique.

Interacting directly with the customers without any mediators is called direct marketing. Teleshoppings, direct mails, online shopping are some of the tools of direct marketing. It enables two-way communication between the marketer

and the potential/target customers. To be able to do direct marketing, marketer needs to have a database and a team of experts to design and deliver the messages.

20.10 KEY WORDS

Augmented and Virtual Reality Marketing: use of virtual and augmented reality technology by marketers to promote their brand by creating a virtual (real life type) environment.

Digital Marketing: marketing is done through internet and other digital platforms (such as the radio, television, mobile applications, social media, web-applications search engines, websites etc). This marketing can be done online as well as offline.

Direct Marketing: an interactive system of marketing which uses one or more advertising media to effect a measurable response and/or transaction at any location.

Experiential Marketing: done to ensure the customers' emotional attachment to the particular brand by creating personalized and memorable experience, which induce them to buy the products and advocate it to others too.

Face to Face Marketing: the style of marketing where marketers contacts the potential customers directly and makes in-person deal through client meetings, sales events, product demonstrations, in-store visits, interacting in events etc.

Internal Marketing: promoting the company's objectives, products and services to the employees within the organization.

Location Based Marketing: sending alert to the individuals through the mobile device's location, about the market offering available nearby. Location Based marketing is also known as geo targeting marketing, geo location marketing, proximity based marketing and hyper local marketing.

Search Engine Optimization: the process of designing and managing content in a way that it appears amongst the top few on the internet when someone is searching on internet.

Social Media Marketing: creating business pages on social media platforms and promoting it amongst the users of those platform.

20.11 ANSWERS TO CHECK YOUR PROGRESS

- A. 1. i. Online digital marketing ii. Search engine optimization iii. Search engine marketing iv. Face to face (F2F) marketing v. Affiliate marketing
2. i.. False ii.False iii. True iv.True v. False

- B.** 1.i. Experiential marketing ii. Internal Marketing iii. Augmented and Virtual Reality Marketing iv. direct marketing v. location
2. i.. True ii. True iii. False iv. True v. False

20.12 TERMINAL QUESTIONS

- 1) Explain the concept of internal marketing. Describe its advantages and limitations.
- 2) What do you understand by the term digital marketing? Discuss the tools of digital marketing.
- 3) “Face 2 Face marketing works on the principle of likeability of human touch and feel amongst individuals.” Discuss with suitable examples.
- 4) Define the term experiential marketing. Briefly explain its components.
- 5) Discuss the emergence of location based marketing.
- 6) Explain the importance of Augmented and Virtual Reality Marketing in present scenario.
- 7) Discuss the meaning, importance and limitations of direct marketing.